THE PRIVATE OPERATORS IN LOTTERIES INQUIRY

(AUTHORIZED BY THE PROVINCE OF MANITOBA)

FINAL REPORT

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GERALD O. JEWERS - COMMISSIONER

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THE PRIVATE OPERATORS IN LOTTERIES INQUIRY

GENERAL INTRODUCTION

My mandate was to inquire into the role and activities of private operators in lotteries in Manitoba. My inquiry was to relate to their financial dealings respecting lottery activities, contractual arrangements between them and licenced charitable organizations, breaches of the Criminal Code of Canada and the Regulations under the Lotteries and Gaming Act and matters incidental to the foregoing. I was to make findings and recommendations "consistent with the public interest and the general welfare" of the people of Manitoba.

The Manitoba Lotteries & Gaming Control Commission is responsible for the distribution of the products of the Western Canada Lottery Foundation, such as the well known lottery tickets "Western Express", "Provincial", "Super Loto", "Tic Tac Toe", and latterly, "Loto 6/49". The Commission distributes these through the agency of Western Lottery Manitoba Distributor Inc., which has its own network of agents and retailers. As the latter are all employed under a government sponsored distribution network, they were not seen as coming within the purview of the Inquiry; however, there are a number of private operators acting as promoters and distributors who have contracts with certain of the member agencies of Total Community Involvement, which is now one of the four partners in Western

Lottery Manitoba Distributor Inc., these operators were considered to come under the mandate of the Inquiry and their operations were studied.

The lotteries licenced by the Manitoba Lotteries and Gaming Licencing Board include the sale of "break-open" tickets, casinos, bingos, raffles, wheels of fortune and Calcutta auctions. As private operators play a major role in the distribution of break-open tickets and the operation of casinos and bingos, their functions and activities in these fields were studied. As the participation of private operators in the areas of raffles, wheels of fortune and Calcutta auctions appeared to be minimal, and, in any event, not presently a major concern to the government, no private operators working in these areas were studied.

I have approached this task on the premise that essentially the only permissible lottery activities are those designed to benefit:

a) government; or

b) charitable or religious organizations.

Section 185 of the Criminal Code of Canada prohibits the keeping of a common gaming house, and section 189 of the Code prohibits lotteries and games of chance. That is the basic law. Section 190 of the Code makes the exception to the basic prohibition, and allows the Government of Canada, the government of any province and a charitable or religious organization under the authority of a licence issued by any province, to conduct and manage a lottery. The proceeds must be used either for government or charitable or religious purposes. Apart from this, an agriculture fair or exhibition, or a concession operator, thereat, licenced by a province, and lottery schemes at a public place of amusement, where the cost of a chance does not exceed 50¢, and the amount of the prize does not exceed $100.00, also licenced by a province, are made lawful. Essentially, though, lottery proceeds must be used for public, charitable or religious objects, and not for private gain. Therefore, it is incumbent upon licencing authorities to ensure that, as far as possible, lottery proceeds are used for the public, charitable or religious purposes they are mainly intended to benefit, and that the share of the proceeds payable to private entrepeneurs, are kept to a level which is reasonable and constitutes a reasonable return to them for their services and upon their investments. As well, it is assumed that the licencing authorities will want to ensure that the lotteries are run honestly, efficiently, and give good social and entertainment value to the members of the public who patronize those activities. It will be the purpose of this report then, to attempt to assess whether these objectives are being met under the present laws and regulations relating to private operators in the field, and if necessary, to make recommendations for improvement.

The main work of the Commission was carried out by the undersigned as Commissioner, Ms. Sheila Leinburd as Counsel to the Commission, and the accounting firm of Price Waterhouse. Valuable clerical assistance was provided by support staff in the County Court of Winnipeg, of which I am a Judge, and by support staff in the offices of the Manitoba Lotteries and Gaming Control Commission and Licencing Board.

To assist in my education in the subject, and for general background, I had the advantage of reading a comprehensive brief prepared under the supervision of the general manager of the Manitoba Lotteries Commission, Mr. Garth Manness, which identified what he viewed as problem areas, the report of the 1979 Royal Commission into Lotteries in Manitoba, conducted by Mr. Graeme Haig, Q.C. of Winnipeg, which provided a most thorough and useful overview of lotteries and gaming activities in this province, legislation and case law relating to gaming, and in particular, legislation and regulations both from this province and other jurisdictions relating to gaming.

Counsel to the Commission, Ms. Sheila Leinburd, and I myself, sometimes jointly, sometimes individually, conducted in excess of 55 private interviews with officials of the Manitoba Lotteries and Gaming Commission, members of the R.C.M.P. Gaming Division and the Winnipeg Police, Vice Division, Crown Attorneys responsible for the prosecution of gaming offences, officials of the Nevada Gaming Commission, members of the boards of, and officials representing, such organizations as Total Community Involvement, Western Lottery Manitoba Distributor Inc., and the Manitoba Hotel Association, representatives of groups licenced to conduct lottery activities in Manitoba, and representatives of the majority of the various private operators which were studied.

Approximately 25 private briefs and submissions were received from various organizations and persons, including, for example, the Manitoba Metis Federation Inc., Festival Du Voyageur, the Polish National Catholic Church (Beausejour, Manitoba), the Manitoba Sports Foundation, certain of the private operators, the Association of Casino Employees, the Variety Club of Manitoba, Chapter 1058, the Casino Players Association, the St. Boniface Hospital Research Foundation, the Manitoba Hotel Association, Total Community Involvement, Brandon Shoppers Mall, Western Lottery Manitoba Distributor, and certain community bingos.

Public hearings were held in the City of Winnipeg on May 17th, June 7th, June 8th and June 9th, 1982. Public hearings were scheduled to be heard in both Brandon and Thompson, Manitoba, but were cancelled since there were no indications that submissions would be made at those hearings. Approximately 29 groups appeared before the public hearings and presented briefs or made submissions. Of these, the majority were licencees using the services of the commercial bingo halls, although there were also briefs from, and representations by, such organizations as the Manitoba Heart Foundation, the Horsemen's Benevolent and Protective Association (Manitoba Division), the Association of Casino Players, the Association of Casino Employees, the East Selkirk Interested Citizens, the Dubuc Social Club (the one community bingo which submitted a brief at the public hearings), the Winnipeg Convention and Visitors Bureau, certain private operators, namely Bingo Enterprises Limited (which operates the commercial halls, Buffalo Bingo and Bison Bingo), the Community Casino Company, Club Casino Equipment Company and Cannon Security.

Since so much of the work of the Inquiry related to the examination of the financial operations and dealings of the private operators, a large portion of the responsibility for the study fell upon the accountants assisting the Inquiry, Price Waterhouse. They studied and prepared analyses of the financial results of lottery activities in the province generally, and they examined and commented upon the financial and business aspects of the operations of private operators. The results of these examinations and comments are either re-produced in, or appended to, the report.

An attempt was made to learn the experience of other jurisdictions and provinces with respect to lotteries, and I corresponded with gaming officials in the provinces of British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia. I personally visited and consulted with gaming officials in Nova Scotia, and, at the same time, had the opportunity of consulting with the official in charge of lotteries in the Province of New Brunswick, who happened, coincidentally, to be visiting at the Lotteries Commission in Nova Scotia. Counsel to the Inquiry, Mrs. Sheila Leinburd, visited and consulted with gaming officials in the State of North Dakota and in the Province of Alberta. Representatives of the Nevada State Gaming Commission were consulted, and visited Winnipeg to study the casino operations here.

My general conclusion is that the lotteries industry in Manitoba is well served by the private operators. Although some of the latter are well rewarded for their efforts, general statistics provided by the government indicate that the major share of the revenues from the industry are being paid back in prizes and in profits to the licenced charities. Appended hereto, as Schedule "A", is an analysis, prepared by our accountants, showing the 1981 operating results of activities under the control of the Manitoba Lotteries and Gaming Control Commission and Gaming Licencing Board. Figures for 1982 are not yet available. These figures show that, in 1981, the total gross receipts from all lotteries activities in the province were $111,600,000.00; that $71,500,000.00 were paid back in prizes; that $12,200,000.00 were paid out in expenses; that $6,050,000.00 were paid out in commissions and payments to retailers, distributors, hotels and other private operators; and that the net profits realized for charities and community organizations were $21,850,000.00.

The statistics are based on returns made to the Commission and Board by the licencees, and these returns were not audited by the government or by this Inquiry.

The immediately following pages contain summaries and recommendations under the major topics studied. After that, follows the text of the report on which those summaries and recommendations are based.

GOVERNMENT SPONSORED LOTTERY TICKETS

Summary

1. The promoters studied are fulfilling the functions they were hired to perform in a most effective way, and with considerable benefit to the agencies which they serve.

2. The contracts between the promoters and their clients are pursuant to, and in accordance with, the agreement dated January 21, 1980, between the Province of Manitoba, The Manitoba Lotteries Commission, Total Community Involvement Inc., and Western Lottery Manitoba Distributor Inc., which provided that during the term of the agreement, T.C.I. would ensure that no T.C.I. agencies should enter into any agreement with any person for marketing or promotional services respecting lottery tickets, without the approval of both T.C.I. and the Minister responsible for lotteries, and that commissions payable under such contracts would be limited to 50% of the gross revenues received by the T.C.I. member agencies utilizing the services of the promoters.

3. The contracts are generally fair to the agencies, although some of them could be improved in areas relating to exclusiveness of services and termination.

4. The concept of commissions based on a percentage of the gross revenues earned by the client T.C.I. member agencies, which is the basis of all of the contracts except

the new Thadeus contracts, has the advantages of providing incentive and of tying the earnings of the promoters to their performance; it has the disadvantage of potentially leading to a situation where the earnings of the promoters could exceed what might be thought acceptable in a lottery scheme for charity.

5. The concept of paying to the promoters a fixed fee based on actual expenses, contained only in the new Thadeus contracts, has the advantages of certainty, of relating the charges payable by the client to the actual and necessary expenses of the promoter, and of providing a definite limitation to the earnings of the promoters; it has the disadvantages that the incentive for the promoter may not be so great and that his earnings are not dependent upon his performance.

6. The contracts between the promoters, Michael Van Walleghem and Karl Auerbach, and their clients, have all been approved by the government and will last indefinitely, and short of legislation, there is no further action which the government can take with respect to them; should problems arise under them, it is always open to the agencies to terminate the contracts, although, depending on the circumstances, this might not always be the satisfactory solution.

7. The current contracts between the promoter, Thadeus Lotteries Management Limited, and its clients, have not been

approved, but the parties have been operating under those contracts since April 1, 1982, subject to approval.

8. The earnings of the promoters studied have generally been reasonable, and certainly comparable to the earnings of W.L.M.D. agents; however, for the period ended August 31, 1981, the earnings of the promoter Thadeus were very substantial; nevertheless, these latter earnings were pursuant to contracts which complied with the master agreement of January 21, 1980 between the Province of Manitoba, T.C.I. et al, and which were approved by the government, although the earnings probably were higher than what were anticipated and what would have been thought acceptable in a government sponsored lottery scheme for the benefit of charity. It was possibly in recognition of this that the promoter itself took the initiative in proposing a different form of contract under which it was intended that the net earnings of the promoter would likely be lower.

9. For the year ended March 31, 1983, the earnings of Thadeus (now operating as Thadeus Lotteries Management Limited), operating under its new contracts with its clients, would have been lower than in the year ended August 31, 1981, and these contracts were probably more advantageous financially to the clients than the previous contracts, assuming, as is likely, that the promoter's sales performance has remained, and will

remain, at the same high level as in previous years.

10. The above master agreement of January 21, 1980, requiring Ministerial approval of promoters' contracts and the new legislation permitting the government to examine the books and accounts of promoters, give to the government all the power it needs to control and regulate future contracts between T.C.I. member organizations and promoters.

11. The majority of retailers of lottery tickets do not earn significant amounts from the sale of the tickets; however, certain others, like Thadeus Ltd. and InfoPlace Ltd., do earn substantial revenues from sales of the tickets.

12. Loto 6/49, has become a very popular form of lottery capable of producing substantial revenues for W.L.M.D., and its sales potential would probably be even greater if it were marketed through the private operators in shopping malls throughout the province.

13. The manner of distribution of T.C.I. revenues to its member agencies, which is based principally on sales performance, is inconsistent with the agreement dated January 21, 1980, providing for T.C.I. to become a full partner in W.L.M.D., which stipulates that the selling accomplishment of T.C.I. members, who are retail representatives of lottery products, shall be neither the sole, nor the principal criterion for revenue sharing; there tends to be a duplication of administrative functions between the W.L.M.D. and T.C.I. distribution networks, causing probable additional costs,

but this may be offset by greater sales produced by the competition between the two sales organizations; there has been a certain amount of business transferred from W.L.M.D. to T.C.I. sales outlets, which has caused W.L.M.D. to be concerned that, if business should continue to be so transferred, the W.L.M.D. sales network might be seriously undermined.

Recommendations

1. In granting approval of future contracts between T.C.I. member agencies and promoters, the government should:

    a) carry out a careful investigation into the background, character and financial worth of the proposed promoter to ensure that he or she is of good character and credit;

    b) ensure that the proposed contracts are fair and reasonably safeguard the interests of the agencies, and should specifically ensure that, where appropriate, the contracts address such matters as providing for the rendering of exclusive services (or at least spelling out and limiting the other agencies for which the promoter may work), reasonable termination and protection of the agencies against solicitation of its retail outlets following termination;

    c) to judge the appropriateness of the method and quantum of remuneration to be received by the promoter, call for the production of reliable information as to past sales, revenues and expenses, and a detailed budget for the future, in the case of existing promoters with previous experience, and a reasonable and detailed budget of anticipated sales, revenues and expenses, in the case of new promoters with no previous experience;

d) in the case of a proposed contract where the promoter is to be paid a percentage of gross revenues and where the scope of the operation is such that it could result in substantial revenues, the Minister should consider setting the percentage at a rate lower than the allowable maximum of 50%, or imposing an absolute dollar limit upon the total revenues permitted to be earned by the promoter, or both;

e) in the case of a proposed contract where the promoter is to be paid a fixed fee, or a fixed fee and expenses, ensure that the promoter's performance is likely to be such as to justify the fee;

f) limit the approval to a specific time period, so that the performance of the promoter can be reviewed and any necessary adjustments can be made.

2. The government should approve the current contracts between Thadeus Lotteries Management Limited and its clients, but only for the period ending March 31, 1983.

3. The government should approve any future contracts between Thadeus Lotteries Management Limited and its clients upon:

a) production of the proposed budgets for the forthcoming year;

b) production of a statement and verification of the revenues of the agencies and expenses of the promoter for the 1982-83 annual period;

c) being satisfied that the budgeted expenses for a future period or periods, reasonably correspond with the prior actual expenses;

d) being satisfied that the management fees are reasonable, particularly in the light of the experience of the previous period, including sales performance and the profits yielded by the lottery ticket retail operation of the principals or companies in which they have an interest;

e) limit the approval to one year only.

4. The government should review the manner of distribution of T.C.I. revenues amongst its member agencies, having regard to the fact that the current distribution is heavily weighted in favour of the sales performance of individual agencies which would appear to be inconsistent

with the above agreement dated January 21, 1980, to which T.C.I. is a party.

5. The government should review the relationship between T.C.I. and W.L.M.D. to see whether or not actual and potential problems regarding duplication of administrative functions and the transferring of existing business from W.L.M.D. to T.C.I. might be resolved either through an amalgamation of the distribution networks of the two organizations, or by some other viable alternative to this.

6. Private operators, including shopping malls, should be licenced to sell 6/49 lottery tickets.

7. The commissions on these tickets should initially be set at relatively modest levels - in the rate of 3 - 5% for the period of one year only and should be reviewed and, if deemed appropriate, varied to ensure that the revenues earned by the retailers are reasonable.

8. All private operators selling lottery tickets should be required to submit financial statements to the Commission 90 days after the end of their fiscal year. Where commissions are substantial, the statements should be audited. For the purpose of this filing, all related organizations or individuals, should be considered as a single entity.

BREAK-OPEN TICKETS

Summary

1. Break-open tickets are manufactured in Manitoba by two printing plants, Saults and Pollard (1971) Limited and Wallingford Press Limited; both of these firms are well established, reputable and have long experience in the printing business; Saults and Pollard, in particular, has had considerable experience in the field of security printing.

2. Saults and Pollard is the major manufacturer of break-open tickets in the province, and produces a very high proportion of all of the tickets sold within the province.

3. The plant security and the manufacturing security in the printing plants operated by the manufacturers are adequate.

4. Although there were initially problems with the quality and security of the break-open tickets themselves, these have been largely overcome by the manufacturers, and ticket quality and security are now reasonably good; however, the security of the tickets could be improved still further, particularly if the government were to lay down strict and specific standards in this regard, so that the licencees would be required to purchase and sell only tickets meeting these standards - a policy not now followed.

5. Saults and Pollard has a substantial investment in plant and equipment relating to the manufacture of break-open tickets for distribution in Manitoba (exclusive of investment in plant and equipment with respect to extra-provincial distribution of break-open tickets and other products) - estimated at approximately $730,000.00 - and has enjoyed good, but not unreasonable profits from its production and sales in that field, having regard to the size of the investment; it is estimated that for the year ended October 31, 1982, the company's net profit from tickets distributed in Manitoba, was $213,000.00 (before taxes and after principal's salary); or $157,000.00 (before taxes and after principal's salary); Wallingford Press has only recently commenced the manufacture of break-open tickets and, as of October 31, 1982, has not realized any return on its investment in this process. Its projected rate of return appears to be reasonable.

6. The major distributors of break-open tickets in the Province of Manitoba are Play-All Ltd., International Gaming Supplies and Action Novelty Ltd. (Bazaar Novelty franchise), all located in the City of Winnipeg; of these, by far the largest is Play-All Ltd. which distributes all of the break-open tickets manufactured by Saults and Pollard.

7. These distributors all appear to be doing a competent job of efficiently distributing the tickets.

8. The principals of Play-All Ltd. have invested approximately $400,000.00 in the distribution of break-open tickets in Manitoba. Because of the high volume of ticket sales it has been able to generate, particularly those to hotels, the company has enjoyed excellent profits on the sale of break-open tickets in Manitoba. In 1981 such profits before income tax and payments to principals are estimated at $234,000.00 to $260,000.00. The other two larger distributors, Action Novelty Limited (Bazaar Novelty) and Gene Shelley of International Gaming Supplies, do not have as large a volume of business, and their earnings have been more modest.

9. Commencing in July, 1981, the licencee, St. Boniface General Hospital Research Foundation Inc., obtained a licence to sell break-open tickets in the province, for the purpose of raising money to build a research building, to be located on the grounds of the St. Boniface General Hospital in

Winnipeg, Manitoba, at a cost of approximately $6,000,000.00; approximately 203 commercial hotels in Manitoba, coordinated through the Manitoba Hotel Association, are selling break-open tickets exclusively on behalf of this licencee, and these sales have been highly successful in raising money for that charity; the licencee has been paying to the hotels 10% of the gross proceeds of the sales as remuneration or commission for their services, which is in accordance with the maximum amount allowed under the standard licence conditions laid down by the Licencing Board; the majority of the hotels (144) have been selling moderate amounts of tickets and earning correspondingly moderate revenues; a number of hotels have been selling larger volumes of tickets and earning more substantial revenues; a very few hotels have been selling very large volumes of tickets and have been able to earn very substantial revenues (one hotel earned gross revenues of $161,000.00 before expenses in 1982); in the light of this experience, the government may wish to consider introducing a reducing percentage scale of commissions payable to commercial hotels for the sale of break-open tickets, with the maximum commission set at 10% for sales up to a certain volume, and reducing on sales in excess of that volume; this would result in more money being available to the charity, and yet still give a good rate of return to the hotels.

10. By far the greatest percentage of the net receipts from the sale of break-open tickets is paid to the licencees, the

charitable and community organizations, which, in 1981, received 79% of the net receipts after payment of prizes, and earned net profits of 69% of the net; much lesser percentages are payable to the government and the private operators; in 1981, the government received 7% of the net proceeds, the private operators received 14% of the net and their profits, (before compensation to principals) amounted to 3% of the net.

11. There is some evidence that break-open tickets are being distributed in Manitoba to persons not licenced to sell them, although the Inquiry was not able to establish that this was a wide spread abuse. There is some evidence of the fraudulent use of such tickets in Manitoba, although, again, the Inquiry was not able to establish the extent of this problem; some improvements which have already been made in the quality and security of the tickets should serve to curtail this type of abuse.

12. The question of the good character and credit of persons seeking to enter the business of manufacturing or distributing of break-open tickets is not satisfactorily addressed anywhere in legislation or regulations; the present terms and conditions of the licences to sell break-open tickets do require that the tickets must be purchased from a distributor "as approved by the Board", but these terms and conditions do not bind the distributors; there is no requirement at all that the manufacturers must be approved.

13. The manufacturers and the distributors have been working together to produce tickets of reasonable quality and **security, however, there is nothing in legislation or in**

regulations stipulating that the tickets are to meet certain specific standards of quality and security; the terms and conditions of the licence do provide that the "type" of tickets must be approved by the Licencing Board, but are silent as to the ticket quality and security; nevertheless, the Board has been making an effort to monitor ticket quality and security, and to encourage the licencees to purchase the best available tickets.

14. While security in the manufacturing and distribution processes may be presently adequate, nevertheless, the security systems in place are those which were devised by the private operators, and not by the Licencing Board, which has not attempted to lay down and enforce its own standards of security.

15. The Licencing Board has made no attempt to control the prices charged by the private operators for the break-open tickets.

16. While only persons possessing valid licences from the Licencing Board can retail break-open tickets, there is nothing to prevent distributors from wholesaling the tickets to any person - even those without valid licences - to retail the product; the present terms and conditions of the licences do state that a distributor is authorized to sell only to a licencee; however, these terms and conditions apply only to the licencees, and are not binding upon the distributors.

17. The manufacture and distribution of break-open tickets can probably best be controlled by the government assuming the responsibility of distributing the tickets and by contracting out the manufacture and, possibly, the actual distribution of the tickets to private operators in the field.

18. Reasonable - but somewhat less effective - controls could also be achieved by maintaining the present system, but licencing distributors and imposing the essential controls in the licence conditions; it is probably not practical to licence manufacturers as the province only has the power to licence the local,and not the extra-provincial, manufacturers.

Recommendations

1. There should be controls designed to achieve: integrity and reliability of the manufacturers and distributors of break-open tickets, high ticket quality and security, reasonable security in the manufacturing and distribution process, reasonable ticket prices, and the prevention of sales by non-licenced and unauthorized persons.

2. The government should design an official break-open ticket (or series of break-open tickets) of high quality and precise specifications, and this should be the only break-open ticket permitted to be sold by licencees in the Province of Manitoba.

3. To best achieve the desired controls the government should assume full control of the distribution of break-open tickets and contract out the manufacture and, if it wishes, the distribution of the tickets to reputable private operators - similar to the way lottery tickets are distributed in the province. The contracts should control ticket specifications, quality and security; quality control in the manufacturing process; security in the manufacturing and distributing process; and ticket price.

4. Alternatively, the government should institute a system whereby the official government tickets could be distributed only through licenced distributors to the licencees; the conditions of the licence should provide for such matters as: requiring the distributor to purchase the tickets only from manufacturers approved by the government; security in

the distribution process; government inspection and audits; filing of periodic, audited financial statements; and ticket price; the terms of the licence should require that all distributors with gross revenues in excess of $100,000.00 be required to file annual financial statements in respect of their Manitoba break-open operations with the Manitoba Lotteries and Gaming Licencing Board. When their gross revenues exceed $1,000,000.00, these companies or individuals should be required to submit audited financial statements.

5. In the light of the considerable revenues earned by some of the hotels on the sale of break-open tickets, the government should consider introducing a reducing percentage scale of commission payable to the hotels on the ticket sales, with the maximum commission set at 10% for sales up to a certain volume and reducing for sales in excess of that volume.

BINGO

Summary

1. There is a place for commercial bingo halls in the lottery system in Manitoba, subject to appropriate controls.

2. The two commercial halls now operating in Manitoba, Buffalo Bingo and Bison Bingo, both in the City of Winnipeg, are providing a good service to the licencees.

3. Those licencees which have been renting space in these commercial halls have generally conducted successful bingo events there and have made good profits, considerably exceeding those which they could have expected to make on more traditional fund raising ventures. In the year ended May 31, 1982, they earned approximately $621,700.00.

4. The commercial halls may or may not have affected the operations of some of the community bingos, in the City of Winnipeg. The general profitability of the community bingos has been steadily declining from 1977 to 1981, and this was so even before the advent of the commercial halls.

5. There is a question that the commercial hall, Buffalo Bingo, may have breached the provisions of the Criminal Code of Canada, prohibiting and making an offence, the keeping of a common gaming house, and this may be determined by the decision of the Manitoba Courts on a charge previously pending against Buffalo in this regard; this charge was dismissed by Provincial Judges Court on a preliminary motion, but the decision may be appealed. If so, and if a conviction results, then the Licencing Board may have to conduct a review of the commercial operations to ensure that, in future, they comply with the requirements of the law.

6. The licencees appear to be in breach of certain

regulations (incorporated in the licence conditions) promulgated by the Licencing Board, prohibiting licencees and commercial halls from jointly accumulating a jackpot, and requiring them to place their own advertising; they are circumventing, but not necessarily breaching, a regulation prohibiting "sliding scale" rental fees; however, these regulations are not appropriate and should be repealed.

7. In the year ended May 31, 1982, Buffalo Bingo has earned high profits, namely $195,000.00 (before depreciation) or $164,000.00 (after depreciation) but before executive salaries and income taxes on assets composed of leasehold improvements, equipment and furnishings which cost $225,000.00.

8. The principal sources of these profits are the charging of a 100% mark-up on cost of bingo supplies and rental charges.

9. In earning these profits, Buffalo Bingo was under no constraints from governmental or other sources, and was not in breach of any law or regulation related to the profits which might be realized by the private operators of commercial bingo halls. The present rules do stipulate that the private operators may sell bingo supplies at a "fair" rate; but there is no definition of, or any guidelines with respect to, what should be considered to be a "fair" rate. (In any event, these rules bind only the licencees and not the private operators.)

10. A statement of profits earned by Bison Bingo was not available. (Their first full year of operations only ended on May 31, 1983.)

Recommendations

1. The operators of commercial bingo halls should be controlled to ensure that they are of good character and credit.

2. Controls should be imposed upon the private operators to ensure that the premises in which the halls are situate, are adequate in terms of size, construction, comfort and conveniences and reasonably equipped.

3. There should be controls limiting the revenues, expenses and profits of the commercial halls to ensure that the main beneficiary of the lottery, is not the private operator but the licencee, and to keep the profits within reasonable limits.

4. The private operators should be permitted, for the time being, to sell bingo supplies to the licencees, but in order to ensure the best control of mark-ups and profits on these items, the government could consider setting up a system in which the government would acquire these supplies, and sell them to the licencees, with the provision that, for convenience, the supplies could be stocked in the commercial halls.

5. The profits permitted to be earned by the private operators, after allowance of appropriate remuneration to owners, should be a percentage of the amount of the operators' investment (equity) in his venture; the percentage should be adjusted periodically and should be based on current economic conditions and other factors affecting the

venture, including location, the degree to which it has become established,and its competition.

6. Controls should be enacted to ensure that the commercial halls maintain proper accounting systems and internal controls, not only for the sake of their own efficiency, but to enable them to provide the licencing authorities with the necessary financial information to set prices and rental fees.

7. If legally permissible, the Licencing Board should adopt a cautious approach towards the licencing of charities in new commercial halls, other than the existing halls, in order to avoid the danger of severely damaging the businesses of the smaller community halls.

8. The Licencing Board should try to avoid licencing charities to conduct bingos in new and additional commercial halls until such time as it is clear that the accomodation which can be provided in the existing halls, is no longer adequate.

9. To alleviate the demand upon the existing commercial halls and to promote the widest and most equitable use of them, the Board should assume a greater role in the determination of the number of dates and the specific dates to be assigned to the users of the halls.

10. In order to best determine the number of dates to be assigned to applicants for licences in the commercial halls, the Board should attempt to ascertain in advance, all the organizations desiring to apply for licences for

a certain future period and then, after having determined the suitability of the applicants, should apportion the available nights amongst them in accordance with their respective intrinsic needs and also, their respective needs in relation to those of all of the other applicants.

11. The present regulations should be expanded and strengthened to achieve the above controls.

12. The regulations prohibiting "sliding scale" rental fees and the accumulating jackpot and the regulation requiring the licencees to place their own advertising, should be repealed.

13. Private operators of commercial halls should be licenced.

14. Conditions precedent to the granting of the licence should be that the applicant is of good character and credit, that the premises, including the building, furnishings and equipment are adequate, that the operator's accounting system and internal controls are adequate, and that the operator provide to the Board, financial information and a budget so the Board can determine appropriate rental fees and other prices to be charged.

15. The licence itself should contain terms and conditions providing for: the maintenance of a proper accounting system and internal controls; the actual amounts of the rental fees and other prices permitted to be charged by the operator;

the right of the Board to inspect the premises and equipment of the operator, and audit his accounts at any time; and the obligation of the operator to periodically provide the Board with audited financial statements.

16. The Board should take steps to ensure that the private operators carrying on business at Winnipeg Beach and Grand Marais, are in full compliance with their licences relating to the amount of the prizes which can be offered by such operators.

17. The Board should consider imposing the same general type of controls on community bingos as those imposed on commercial halls relating to premises, accounting systems, internal controls, the introduction of new halls and other matters.

CASINOS

Summary

1. Private operators, including casino management companies, banking and accounting services, equipment companies, security companies and casino employees, are all providing essential services to the licencees.

2. These private operators and employees are apparently competent, but they have never been tested or certified by government authorities.

3. Fees charged by the private operators are generally reasonable and are subject to approval by the Licencing Board.

4. The accounting and banking systems employed by the principal management companies are adequate, are controlled by proper accounting documentation, and do enable proper financial reports to be prepared for submission to the licencees and to the Licencing Board; if the procedures specified by either of the two casino banking and accounting services were to be followed without exception, the controls over cash and chips would be very good; but in practice, the controls are dependent upon the expertise of the volunteers, and if they do not fully understand their responsibilities, there could be a breakdown in the control procedures.

5. It is desirable that the functions of games manager and banker should be kept absolutely separate. However, the accounting and banking services are closely connected to the principal management companies, and the volunteer bankers, whom these services advise and assist, are not

uniformly knowledgeable and experienced. There is danger that some of the latter might be excessively influenced by the professional advisers. There is, therefore, no true separation of management and banking in all casinos; however, no evidence of any improper influence or impropriety was brought to the attention of the Inquiry.

6. The Licencing Board does not have in place a system of scrutinizing and monitoring the accounting and banking practices at the casinos conducted in Manitoba, as the Board does not have staff properly trained to perform this function.

7. The Board does not have in place a system of inspecting and monitoring the conduct of the casinos in Manitoba, and the performance of the games personnel therein, as the Board does not have on its staff personnel trained to perform such work.

8. The equipment provided by the two equipment companies, the Red River Exhibition Association and Club Casino Equipment, is apparently adequate, although it has never been tested and certified by the government.

9. The Licencing Board does not have in place a system of scrutinizing and testing the equipment used at the casinos, particularly the wheels, as the Board does not have on its staff personnel trained to do such inspections.

10. The security at the casinos is adequate, but might be improved by the provision of additional security personnel,

the encouragement of greater consultation between the security companies and the licencees, and by regulations setting out in detail specific minimum security measures.

11. The present house rules followed by the two principal management companies are not standard, could be improved from the standpoint of the players, but do contain certain desirable features which minimize the opportunity for fraud on the part of any unscrupulous players.

12. Under the guidance and with the assistance of the private operators, the casinos in Manitoba, and in particular, those operating in the City of Winnipeg, have been most successful financially.

13. Most of the gross receipts from the casinos in the City of Winnipeg have been paid as profit to the licencees; until recently, most of the gross receipts from the casinos in rural Manitoba have been paid out in expenses, although in the year 1981, the greater portion of the gross receipts was paid as profit to the licencees; nevertheless, the net revenues earned by the licencees were still respectable.

Recommendations

1. The Board should attempt to ensure the competence of all games personnel, including games managers, those providing banking and accounting services, pit supervisors, pit bosses and dealers, through a system of training and testing.

2. All of the above games personnel, and as well, security personnel, should be licenced by the Board, and such licences should be granted only after the applicants have demonstrated their good character and credit, and through suitable testing, their competence. (Essentially recommended by the Haig Commission)

3. All personnel, both professional and volunteer, working at casinos should be checked for related prior criminal records through the local Police Department.

4. The Board should continue to approve all contracts and fees of the private contractors, such as management companies, accounting and banking services, security companies, equipment suppliers. (Recommended by Haig Commission)

5. In the case of the management companies, the Board should require all contract proposals to be written and submitted to it.

6. The Board should consider reducing the number of games managers permitted to be employed at the casinos, at least on a trial basis.

7. The Board should assume the responsibility of fixing and controlling the remuneration and working conditions of

the casino personnel below the level of the private contractors, namely, supervisors, pit bosses and dealers. Tipping should not be allowed.

8. Casino equipment should be periodically checked by the Board to ensure that it is in good working condition. (Recommended by the Haig Commission)

9. The regional bank system should be discontinued.

10. The count room should be sterile and physically segregated from the central bank.

11. The drop boxes that collect the cash at the gaming tables should be designed to ensure that cash cannot be removed through the slot where the money is inserted.

12. The casino banking and accounting procedures and practices, including multiple forms and records, should be established by the Board and standardized.

13. The Board should ensure the more effective working of the rule that management and banking functions must be separated, either by insisting that all volunteer bankers should be sufficiently knowledgeable to be able to operate independently of the banking advisers, or by insisting that the advisers have no connection at all with games management.

14. The Board should scrutinize and monitor the casinos while in operation to ensure that the banking and accounting systems are being operated in accordance with the procedures established by the Board. (Recommended by the Haig Commission)

15. The actual conduct of the casinos, and the performance of all games personnel should be scrutinized and monitored by the Board. Board personnel should be authorized to close a casino forthwith if they discover anything materially wrong.

16. Specific rules regarding security at casinos should be laid down by the Board, and these rules should include regulations as to the minimum qualifications for security personnel, the numbers of security personnel to be employed in the casinos, and specific security measures and methods to be used in the casinos.

17. The Board should review the present house rules and game rules with interested parties, and should establish acceptable and, above all, standard rules to be followed at all Manitoba casinos.

INCIDENTAL AND MISCELLANEOUS MATTERS

Recommendations

1. As soon as funds and staffing permit, the Licencing Board should undertake a study of the organization and internal controls of each of the major ongoing lotteries under its jurisdiction, to determine whether they are adequate, and if not, the Board should undertake to advise the licencees sponsoring those lotteries of the ways in which their organization and controls could be improved. These reviews should be periodically repeated to ensure that the major lotteries are continuing to follow proper business and accounting practices.

2. Where appropriate, the Board should draft and distribute to all licencees, large and small, rules and practices which might be observed by them in order to ensure the most efficient and controlled operation of the lotteries which they are conducting.

3. To promote public confidence in the legitimacy of lottery operations, interested parties should be able to apply to the Licencing Board for financial information concerning the revenues, expenses, profits and manner of expenditure of profits in relation to all lottery activities.

4. The government should consider reviewing the revenues of all major licencees, and the manner in which the revenues are disbursed, with a view to ensuring that the funds are really necessary for the legitimate purposes of the licencees and are being used appropriately and in the best possible way.

5. The government should consider imposing stricter controls on the incorporation of social clubs to ensure that their prime purpose is not gaming for the benefit of private operators; where social clubs propose to carry on gaming activities for the purpose of earning revenues in such a manner that, to operate lawfully, they would require a licence from the province under section 179 (2) of the Criminal Code of Canada, the government should consider granting licences, not for the purpose of encouraging the growth of the clubs, but rather for the purpose of strictly controlling their manner of operation, and to ensure that their revenues do not go to private operators.

6. If the recommendations contained in this report are implemented, the government should add qualified persons to the staff of the Manitoba Lotteries and Gaming Control Commission, or its successor body, to deal with the increase in work and the specialized work which would be imposed on the licencing authorities.

GOVERNMENT SPONSORED LOTTERY TICKETS

Introductory

Bearer lottery tickets sponsored by the Government of Manitoba, popularly known as "Western Express", "Provincial", "Super Loto", and "Tic Tac Toe", are marketed in the province. In the year ended March 31, 1981, the gross receipts for these lotteries in Manitoba were $30,900,000.00. (1982 - $34,800,000.00, 1983 preliminary - $35,800,000.00) After deduction of prizes ($13,900,000.00), expenses ($5,500,000.00) and commissions to distributors and retailers ($3,800,000.00), the net profits for charities and community organizations were $7,700,000.00.

The Western Canada Lottery Foundation (the Foundation), which is owned by the four western provinces, is the organization responsible for providing the lottery tickets, determining the winning tickets and paying out the prizes. The Manitoba Lotteries & Gaming Control Commission, as the agent of the Government of Manitoba, supervises the sale of the tickets in the province through Western Lottery-Manitoba Distributor Inc. (W.L.M.D.) and authorized retailers.

W.L.M.D. has four equal partners, United Way of Winnipeg, The Manitoba Arts Council, Manitoba Sports Federation, and Total Community Involvement Inc. (T.C.I.). W.L.M.D. obtains lottery tickets directly from the Foundation. These are distributed to retailers by W.L.M.D. sales agents and T.C.I., the only partner of W.L.M.D. actively involved in the distribution of the tickets. T.C.I. distributes tickets to retailers through its member organizations, some of which have hired promoters to market the tickets for them. These promoters are the primary subject of this part of the report.

Most retailers sell lottery tickets to supplement their other income. However, a few derive most of their income from the sale of lottery tickets; these fall within the scope of this Inquiry.

There are sales agents marketing the tickets on behalf of W.L.M.D., but these are all part of the government controlled distribution network and were not seen as coming within the scope of this Inquiry.

Originally, the Manitoba Lotteries Commission sold a non-bearer registered ticket under the name of Manitoba Golden Sweepstakes. The Western Canada Lottery Foundation, which commenced its operations in July, 1974, continued these sales. The Foundation sold the tickets to the Manitoba Lotteries Commission, which in turn, distributed them to volunteer community groups, which acted as wholesaling agencies. These agencies consigned their tickets to retailers which sold the tickets directly to the public with the commission, the community groups and the retailers all earning profits. W.L.M.D. was set up in 1975, and, once that happened, there was no longer any place in the marketing system for the community groups, although the government of the day had indicated that an alternative would be made available to the community organizations to earn revenues through the sale of the tickets. The Manitoba Lotteries Commission engaged Mr. Daniel Kennedy, now Judge Daniel Kennedy, to consult with the community organizations and establish a system whereby they could be involved in the marketing and distribution of the tickets. This resulted in the formation of the marketing agency known now as Total Community Involvement Inc. Ultimately, Total Community Involvement became a full partner in W.L.M.D., effective April 1, 1979.

There are now approximately 73 organizations in Total Community Involvement, running from large groups, such as St. Paul's High School and the Royal Canadian Legion to small neighbourhood groups, which have very modest goals and operate only for a very limited time. Organizations may apply to become members of T.C.I., and, if they can demonstrate that they have worthy purposes and fall within the established criteria for charitable organizations, the board of directors of T.C.I. may grant membership to them. Total Community Involvement distributes lottery tickets to its member agencies, which, in turn, arrange for the tickets to be retailed to the public.

Each of the partners of W.L.M.D., including T.C.I., receives 25% of the net profits of W.L.M.D. annually. T.C.I. divides these profits amongst its member organizations according to three criteria; past sales performance, present sales performance, and need. The weight given to these criteria has varied as follows, to provide a smooth transition from the old to the new system:

YEAR	PAST SALES PERFORMANCE	PRESENT SALES PERFORMANCE	NEED
April 1/79 - March 31/80	100%	NIL	NIL
April 1/80 - March 31/81	30%	65%	5%
April 1/81 - March 31/82	15%	75%	10%
April 1/82 - March 31/83	-	85%	15%

It will be seen, then, that at present a factor of 85% is given to sales performance and a factor of 15% is given to need.

For the year ended March 31, 1981, when the percentages for past sales performance, present sales performance and need were 30%, 65% and 5% respectively, the total amount of funds received from W.L.M.D. was $1,034,553.00, and from this $309,112.00 was paid out for past sales performance, $655,832.00 was paid out for present sales performance, and $42,163.00 was paid out for need.

In that period by far the greatest amounts were received by the Royal Canadian Legion, which got $132,554.51, and St. Paul's High School, which got $403,131.54. These are the two organizations assisted by the promoter, Thadeus Lotteries Management Ltd. In a review done by Price Waterhouse for the Manitoba Lotteries and Gaming Control Commission with respect to Manitoba's retail lottery network, presented in October, 1982, it was reported that those member organizations which utilize promoters are much more successful at selling tickets, and therefore receive a much larger share of T.C.I.'s earnings; that most of the members sell tickets primarily through their membership on a volunteer basis; that these accounted for approximately 13% of all sales made by T.C.I. in 1980/81; that two other organizations supplemented the sales by having a large number of retailers in their locality sell tickets for them and these accounted for 7% of T.C.I. sales; that Thadeus, selling on behalf of two members (that would be St. Paul's High School and the Royal Canadian Legion) accounted for a further 55% of the sales; and that the remaining tickets (25%) were sold by approximately seven members utilizing the services of other promoters.

The Promoters

There are approximately ten members of T.C.I. using the services of approximately six promoters. The latter promote the sale of, and distribute, lottery tickets through various retail outlets.

Only three promoters, Michael Van Walleghem, Karl Auerbach, and Thadeus Ltd. (John Puchniak), appeared to be earning significant income from their promotion and sales work, and so they were selected for study.

Mr. Van Walleghem has a contract with St. Ignatius Parish. He is primarily in the milk business, and distributes tickets on his milk route in Eastern Manitoba.

His contract with St. Ignatius Parish calls for him to receive 50% of the gross revenues of the Parish from T.C.I.

Mr. Auerbach has contracts with the Polio Club, the Stroke Club and St. Vital Mustangs Inc. The Polio Club and the Stroke Club are particularly in need of a promoter because their members are not readily able to get out and sell tickets. Mr. Auerbach's contracts call for him to receive 25% of the gross T.C.I. receipts of the Polio Club and the Stroke Club, and 50% of the gross T.C.I. receipts of the St. Vital Mustangs Inc.

The principal of Thadeus is Mr. John Puchniak. A former high school teacher, he started to promote the sale of tickets on a part time basis for St. Paul's High School in 1970. Gradually, the sales promotion work occupied more and more of his time until he gave up his duties as a teacher and devoted all of his time to his lottery business. Accordingly, he had been working for St. Paul's High School long before the Western Canada Lottery Foundation and W.L.M.D. came into existence and T.C.I. was conceived and established.

Thadeus now owns business premises at 27 St. Anne's Road in Winnipeg. Prior to that the company had occupied approximately 2900 square feet of leased office space in the Scott Block in Winnipeg. It acts both as a distributor and as a retailer.

The company employs seven to eight persons full time, including four clerks and three to four salesmen, who deliver tickets, service the current accounts and open new accounts. This staff does not include the staff operating the retail outlets.

The retail outlets operated by the company are at the Polo Park Shopping Centre, the Eaton Place Shopping Centre, the Winnipeg Square Shopping Centre, and the Northside Centre on Portage Avenue. The company anticipates taking over and operating the kiosk formerly operated by a W.L.M.D. agent at the Grant Park Plaza Shopping Centre. The firm rents space from the landlords of these premises and operates ticket booths or kiosks from the space. Approximately twenty-five persons, both fulltime and part-time, are employed in these retail outlets.

In April of 1982, Mr. Puchniak incorporated a new company, Thadeus Lotteries Management Ltd., to operate the lotteries distribution side of his businesses. Thadeus Ltd. had been a holding company for not only the lottery aspect of Mr. Puchniak's business enterprises, but also for other ventures. The incorporation of a new company coincided with a new type of contract which Mr. Puchniak, through Thadeus Lotteries Management Ltd., entered into with his two clients, St. Paul's High School and The Royal Canadian Legion, Manitoba and Northwestern Ontario Command.

Originally, Mr. Puchniak charged St. Paul's High School, his first client, a 35% commission on gross receipts, but latterly, this was increased to 45% - the same as the Royal Canadian Legion. Under the new contracts, he receives a fixed fee.

Performance of Promoters

There can be no doubt that the promoters are fulfilling the functions they were hired to perform. They are promoting the marketing of lottery tickets and servicing their retail outlets with a considerable degree of success. This is borne out by the figures. According to the Price Waterhouse study of October, 1982, the total value of ticket sales through W.L.M.D. for the years ended March 31, 1981 and March 31, 1982, respectively, were $30,900,000.00 and $34,800,000.00; the total value of ticket sales made by T.C.I. in the same periods were, respectively, $4,300,000.00 and $6,700,000.00; and the percentage of W.L.M.D. sales made by T.C.I. in the same periods were, respectively, 13.8% and 19.3%. According to the same study, those T.C.I. agencies using the services of promoters accounted for 80% of the total ticket sales made by T.C.I. Since the member agencies involved leave most of the work to the promoters, it is safe to say that, in all probability, nothing like these sales would have occurred without the services of the promoters.

Representatives of T.C.I., the Royal Canadian Legion (Manitoba and Northwestern Ontario Command), St. Paul's High School and W.L.M.D., interviewed by the Inquiry, were well satisfied with the efforts of these promoters, and had encountered no problems with them whatsoever. Representatives of the Royal Canadian Legion observed that Thadeus was responsible for a profit increase from $11,000.00 in the year previous to hiring, to $60,000.00 in the first year of hiring. Representatives of St. Paul's High School felt that, if they did not have the services of Thadeus, they would have to hire at least three persons to replace it and that at least one of these would have to be an experienced marketing person and fund raiser, to whom a substantial salary would need to be paid. Equally, officials of the St. Vital Mustangs Inc., represented by the promoter Mr. Auerbach, were most pleased with his work on their behalf and the revenues earned through his efforts.

Promoters' Contracts

On January 21, 1980, an agreement was entered into between the Province of Manitoba, the Manitoba Lotteries Commission, Total Community Involvement Inc., and Western Lottery Manitoba Distributor Inc. providing for T.C.I. to become a partner in W.L.M.D., effective April 1, 1979. That agreement also provided that, during its term, T.C.I. would ensure that no retail representatives serviced by T.C.I. should enter into any agreement with any person, firm, or corporation, for any type of marketing or promotional services respecting lottery tickets, unless the contract was wholly in writing and approved by T.C.I. and the Minister. (That is, the Minister responsible for lotteries.) The agreement set a limit of 50% of gross revenues on commissions payable under such a promotional contract.

Pursuant to this agreement, the agencies and the promoters entered into standard, promotional contracts which were virtually identical in their provisions and their wording. These contracts were all expressed to be subject to the agreement, and to approval by T.C.I. and the Minister. All of the contracts have been submitted for approval to, and have been approved by, both T.C.I. and the government, except for the current contracts between Thadeus and its clients, which have been submitted to, but not yet approved by the government. (Prior to these new contracts, Thadeus operated under the standard type of contract.)

The essential provisions of the contracts are: the promoter is to sell, manage, distribute and promote the sale of lottery tickets for the agency; the marketing of the tickets is defined to be any or all of soliciting and servicing pedlars, soliciting and servicing mail order sales, soliciting and servicing sales to retailers through commercial establishments in urban and rural communities in Manitoba, and developing, initiating, training and co-ordinating a bearer ticket marketing staff to fulfil the potential markets; the promoter is to bear all costs of sale, and to pay the cost of tickets which have been sold and not paid for by the purchasers; the agency is to pay to the promoter a certain percentage (ranging from 25% to 50%) of the gross revenues received by the agency from T.C.I., as its share of T.C.I. revenues; the agency is to advance the necessary start-up costs of which the promoter must repay to the agency that portion which cannot be recovered through sales; the agency is to have the right to monitor and audit the promoter's books; the agency is to deliver to the promoter W.L.M.D. products at the same prices as they are offered to a retail representative in Manitoba.

The contracts are to be automatically continued from year to year, in other words, indefinitely, until notice of termination, as provided by the contracts, is given.

Either party may give 30 days notice of termination. (In the previous Thadeus contracts the notice period was 3 months.)

In 1982, Mr. Puchniak, through the medium of Thadeus Lotteries Management Ltd., entered into a new and different type of contract with his clients. In these, the percentage concept is entirely discarded.

The contracts provide that Thadeus is to sell, manage, distribute and promote the sale of bearer lottery tickets on behalf of only the agencies, and that, in exchange, the agencies are to advance to Thadeus certain specific sums of money on the first day of each month, during the course of the agreement. These monthly payments are established by a budget agreed upon in advance and attached to the agreement, setting out the total expenses anticipated to be incurred by Thadeus for the ensuing year, and including a management fee charged for Mr. Puchniak, wages and operating expenses. The total annual cost thus arrived at is divided into 12 equal portions, and the agencies pay these portions by monthly instalments to Thadeus. Then, at the end of the year, should the monthly advances exceed the actual expenses, Thadeus is to remit that excess to the agencies.

The contracts also provide for the agencies to pay to Thadeus an annual bonus not to exceed $5,000.00 in any year "for increased sales and/or reduced costs which display good management".

They provide for Thadeus to establish a trust bank account for the purchase and sale of the lottery tickets; for all records to be open for examination by the agencies; and for the records to show the payment of expenses, including all documents related thereto.

They provide for Thadeus to pay out of its account and arrange financing as required to pay expenses and to purchase lottery tickets, although, subject to the budget, the costs are to be the responsibility of the agency.

The contracts are to continue from year to year, that is indefinitely, unless earlier terminated as provided therein. They may be terminated by either party, on any anniversary date thereof, on three months notice in writing. They may also be terminated by the failure of the parties to agree upon the budget.

The standard, percentage of gross revenue contracts are favorable to the agencies in that they do require the promoters to pay all costs of sale, so that the agencies are not put to expense, and in that the agencies have full rights to audit the promoters' books and assure themselves that the sales are being conducted properly.

There are some aspects of the contracts which are less favourable to the agencies. For example, except for the contracts between Thadeus and its clients, they do not stipulate that the promoters are to work exclusively for the agencies, or if not exclusively, the contracts do not specify and limit the other agencies for which the promoters may act. Thus, a promoter might sell his services to any number of agencies, perhaps without each other's knowledge, with resulting conflict and confusion. Of course, the government would be aware of such a situation, as it must approve all contracts between the agencies and their promoters, and presumably would attempt to control it. Nevertheless, there are, in fact, some promoters who are acting for more than one agency.

In addition, except for the contracts between Thadeus and its clients, the termination clause in the contracts is remarkably short - 30 days. Such a period would allow very little time for the agencies (or the promoters for that matter) to make other arrangements.

Furthermore, the contracts give no protection to the agencies in the event that, following termination, the promoters should attempt to solicit the retailers and persuade them to sell for another agency, or agencies, served, or to be served, by the promoters. This could be very serious for agencies which may have come to rely upon the revenues from the sale of lottery tickets, and which may have established programs and made commitments based upon the expectation and the assumption that those revenues would continue.

The new contracts between Thadeus Lotteries Management Limited and its clients retain many of the features of the previous contracts.

They have fairly clear provisions enabling the agencies to inspect and audit the accounting records of Thadeus to assure themselves that the budgeted expenses are, in fact, being incurred and paid and that Thadeus is conducting its purchase and sale of tickets in a proper manner.

They stipulate that Thadeus will not, either directly or indirectly, act on behalf of any other person in the wholesale marketing of lottery tickets, with the exception of the two agencies in question, St. Paul's High School and the Royal Canadian Legion (Manitoba and Northwestern Ontario Command).

As noted, there is no similiar clause in the standard percentage of gross revenue contracts between the other promoters and their clients, and, in my view, this represents a deficiency in those contracts.

The Thadeus contracts provide for termination by either party on three months notice, which gives to the parties a more realistic period in which to make other arrangements. Again, as noted, the 30 day termination clause in the contracts between the other promoters and their clients is not as satisfactory.

They do not stipulate that upon termination the promoter is not to solicit retail accounts, but such a clause would be of limited use, because Thadeus distributes extensively through its own retail outlets and, naturally, these would remain with Thadeus, irrespective of what agency it worked for.

At the heart of all of the contracts is the method of remuneration for the services rendered by the promoters, and at this point it might be appropriate to examine the actual revenues, expenses and earnings of the promoters studied.

The promoter, Michael Van Walleghem, operating under a percentage contract with his client, St. Ignatius Parish, would have ultimately realized the following amounts from sales in the periods indicated:

From April 1, 1980 to March 31, 1981 -	$19,470.44
From April 1, 1981 to March 31, 1982 -	25,309.25

These are gross earnings, and expenses would have to be deducted in order to arrive at the net revenue received by Mr. Van Walleghem. He was not able to provide us with a list of his expenses. Price Waterhouse, in their report of October, 1982, estimated that his expenses would be less than those incurred by W.L.M.D. sales sales agents, which averaged $6,000.00 for the year ended March 31, 1981. Since Mr. Van Walleghem runs his ticket sales business in conjunction with his dairy distribution business, it is likely that his expenses are shared between the two enterprises. I would estimate that his net revenue probably fell within the ranges of $15,000.00 to $20,000.00 within the two above periods.

(It should be noted that there is a delay between the time a sale is made and commission revenue is received by a promoter. For example, based on ticket sales made in April, T.C.I. will make an initial distribution of its revenue to its member organizations in the following September or October, 6 to 7 months after the sale was made. A final distribution for sales made in a year ending March 31 is made in the following October or November. It is only following these distributions that the promoters receive their commissions. So, while income is earned from sales made in the above periods, the income that a promoter will eventually receive as a result of these sales is not determinable and not received until a much later date. On average, there will be a lag of almost one year from the time a sale is made to the time the income is received.)

The promoter, Karl Auerbach, operating under percentage contracts with his clients, the Polio Club and the Stroke Club (25% each), and St. Vital Mustangs Inc. (50%), would have realized the following amounts from sales in the periods indicated:

From April 1, 1980 to March 31/81 -	$ 1,370.06 -	Polio Club
	1,580.66 -	Stroke Club
	21,024.51 -	St. Vital Mustangs Inc.
Total -	$22,553.23	
From April 1, 1981 to March 31/82-	$ 3,077.00 -	Polio Club
	2,677.00 -	Stroke Club
	55,542.00 -	St. Vital Mustangs Inc.
Total -	$61,296.00	

Again, these earnings are gross amounts and the expenses must be deducted. Mr. Auerbach indicated that his expenses for the latter period were $10,700.00, including $4,700.00 interest, leaving net earnings of about $50,000.00.

In its previous contracts, under which it received 45% of the gross revenues of its clients, Thadeus Ltd. had the revenues, expenses and profits from its entire bearer ticket operation, both wholesale and retail, as shown in financial statements which were prepared for income tax purposes. The Inquiry accountants have not carried out any review or other corroborating investigation to verify these statements. They show that for the year ended August 31, 1980, Thadeus Ltd. had the following experience:

Revenue	$207,631.00
Less Expenses	243,048.00
Net Loss -	($35,417.00)

In that year executive salaries were paid out to Mr. and Mrs. Puchniak in the amounts of $40,000.00 and $10,000.00 respectively, and the net loss noted was after the payment of these executive salaries.

The statements also show that for the year ended August 31, 1981, the company had the following experience:

Revenue	$337,709.00
Less Expenses	260,435.00
Net Income Before Tax	77,274.00
Provision for Corporate Tax	20,671.00
Net Income	$ 56,603.00

In that year, executive salaries were paid to Mr. and Mrs. Puchniak in the sums of $22,000.00 and $17,000.00 respectively, and it should be noted that these salaries were part of the expenses, so the net income shown is that after deduction of these salaries.

These statements show all of the expenses which were incurred to generate revenues for the period September 1 to August 31st. The revenues shown on the statements represent cash received during the period; as explained (pages 57 & 58) they do not include all the revenues which were eventually realized from sale made during those periods. This was because of the delay in the payment of the revenues, which is normal, and portions of the revenues for sales in the periods were not actually paid out to the agencies until about November, and of course, the agencies would not remit the portions due to Thadeus until after these payments were made. Thadeus' and T.C.I.'s accountants explained that they did not feel it was proper for the financial statement ending August 31st to include certain anticipated revenues which had not actually been received, and perhaps not precisely calculated, notwithstanding that the revenues may have been realized as a result of sales made during the accounting periods in question.

The matching of revenues and expenses is a fundamental accounting principle. Accordingly, Thadeus Ltd.'s financial results have been restated to give recognition to its share of earnings paid by T.C.I. to its member organizations, as a result of T.C.I. receiving its share of W.L.M.D.'s net income for the years ended March 31, 1981 and 1980, respectively.

	August 31	
	1981	1980
Revenue as reported	$337,709	$207,631
Share of T.C.I. earnings:		
1980	(100,000)	100,000
1981	166,000	-
	403,709	307,631
Expenses, as reported	260,435	243,048
Less: Executive Salaries	(39,000)	(50,000)
	221,435	193,048
Adjusted income before income taxes and executive salaries	$182,274	$114,583

The situation was complicated in the 1981-82 fiscal period because, in early 1982, the company introduced a new accounting system made necessary by the division of wholesale and retail activities between two separate companies, with Thadeus retaining the retail and Thadeus Lotteries Management Ltd. taking over the wholesale, commencing on April 1, 1982. The final results of the wholesale division were not ascertainable until after March 31, 1983, and were not readily available in time for this report.

It must be emphasized that the above statements combine the results of both the wholesale and retail operations. The representatives of Thadeus explained that the company's accounting system did not differentiate between the wholesale and retail business, and that it would be extremely difficult and costly to separate out and allocate the revenues and expenses for both aspects of the business for the 1981 and 1982 fiscal years. However, our accountants have estimated that 25 to 35% of the net income before tax and executive salaries would be attributable to the retail side of the company, based on the budgeted expenses of the new company, Thadeus Lotteries Management Ltd., which was incorporated to, and now does, carry on the wholesale operation only.

Under the new contracts with the same clients, The Royal Canadian Legion (Manitoba and Northwestern Ontario Command) and St. Paul's High School, the newly incorporated company, Thadeus Lotteries Management Ltd., is to receive a fixed fee for its services for the period from April 1, 1982 to March 31, 1983.

Under these contracts, Thadeus Lotteries Management

Ltd. will receive the following amounts:

a) The Royal Canadian Legion (Manitoba and Northwestern Ontario Command):

Management Fees - John T. Puchniak	$12,000.00
Wages	21,200.00
Operating Expenses	20,710.00
Charge for paying bills - arranging financing - accounting for expenditures etc. 9%	4,851.90
Total -	$58,761.90

b) St. Paul's High School:

Management Fees - John T. Puchniak	36,000.00
Wages	51,360.00
Operating Expenses	46,590.00
Charge for paying bills - arranging financing - accounting for expenditures etc. 9%	12,055.00
Total -	$146,005.00

Appended hereto are Schedules "B" and "C" respectively, which are details of the budgeted expenses with respect to these new contracts. In the event that the expenses are actually less than those budgeted, the promoter is to refund the difference to the clients. There is no reverse provision - that is to say if the expenses are higher than budgeted, the clients will not be required to pay those higher expenses, and the difference will be absorbed by the promoter.

The appended schedules include the total sum of $7,200.00 for wages for Mrs. Puchniak.

The 9% "charge for paying bills, arranging financing, accounting for expenditures etc." is not an actual expense, and may be treated as profit. The total of these charges under both contracts is $16,900.00.

Both of the contracts have provision for bonuses, in each case not to exceed $5,000.00, totalling not more than $10,000.00, to be paid by way of incentive. It is assumed that these bonuses will be paid having regard to the anticipated good performance of the promoter.

Therefore, the total of the salary, profit and bonuses which would be available to Mr. and Mrs. Puchniak through the medium of the company, Thadeus Lotteries Management Ltd., would be:

J. Puchniak Salary	$48,000.00
M. Puchniak Salary	7,200.00
Total -	$55,200.00
Company's profit	16,900.00
Total -	$72,100.00
Bonuses	10,000.00
Total -	$82,100.00

Once again, it must be borne in mind that Thadeus Lotteries Management Ltd. operates only the distribution or wholesale side of the Puchniaks' lottery ticket business, and Thadeus Ltd. will continue to operate the retail outlets. Therefore, if past experience is a guide, it is likely that there will be additional revenues and profits generated by the retail operation. The results of this operation for the period ended March 31, 1983 were not known as at the time this report was written.

It may be of interest and relevant here to consider the role and earnings of the agents acting on behalf of W.L.M.D. and compare them with the role of the T.C.I. promoters and their earnings. The W.L.M.D. agents and the promoters perform roughly the same function, and this is particularly true of the smaller promoters.

There are three classes of W.L.M.D. distributors: sales agents (full time, who service major urban areas); sub-agents (full time, who service rural areas) and sub-agents (part time employed only in isolated northern communities). All three classes are independent contractors in that they purchase their stock of tickets for cash from W.L.M.D., and are responsible for all of their expenses. However, W.L.M.D. supervises them, and assists them in opening accounts, routing territories to maximum efficiency, sales promotion, and handling any difficulties that may arise.

An urban sales agent distributes tickets to retail stores and pedlars in a territory averaging 60,000 persons, and 125 to 150 retailers. His responsibilities include display and maintenance of point of sale material, prospecting for new customers, maintenance of sales records, maintenance of goodwill and public relations activities.

A rural sales agent operates in a territory averaging 70 to 90,000 persons, and each territory has at least one large secondary urban centre as a base. He performs exactly the same functions as the urban agent.

The agents are paid commissions. W.L.M.D. officials provided us with information respecting the annual 1981-82 gross earnings and expenses of their urban agents, and these earnings ranged from a low of $4,670.00 to a high of $46,120.00. The agent earning the highest amount had estimated expenses of $8,500.00, so that his profits before taxes would have been approximately $37,000.00 to $38,000.00. W.L.M.D. advised that the annual gross revenues of the rural agents were projected to be from $30,000.00 to $45,000.00, with expenses of approximately $8,500.00 and profits before taxes of approximately $21,500.00 to $36,500.00. As well, we were advised that the average annual income before expenses of the part time sub-agents, that is, those employed in the isolated northern territories, was projected at from $13,000.00 to $18,000.00 per year.

The functions of the W.L.M.D. agent and T.C.I. promoter are essentially the same in that both are engaged in the distribution of lottery tickets. But there are two significant differences:

1) The agent is restricted to one of many territories assigned to him, while the promoter may operate in all of Manitoba; and
2) The agent receives supervision and assistance from W.L.M.D., while the promoter is completely on his own with little or no supervision and assistance from the agency with which he has

contracted.

Because many of the agents have become very busy simply servicing their existing accounts, they have not had sufficient time to develop new business. This has led to W.L.M.D. hiring four sales supervisors to work with the agents in the development of new business. Basically, the T.C.I. promoters are responsible for promoting and developing their own business.

The earnings of Mr. Van Walleghem might be compared to the average earnings of a W.L.M.D. agent, and are certainly not out of line; the earnings of Mr. Auerbach have shown a somewhat dramatic increase in the last year and compare very favourably to those of a top W.L.M.D. agent, but since the promoters do not have all of the support services of the W.L.M.D. agents, these most recent earnings of Mr. Auerbach are probably not unreasonable; the earnings of Thadeus for the year ended August 31, 1980, were above those earned by a top W.L.M.D. agent, but included retail sales; the earnings of Thadeus for the year ended August 31, 1981, were obviously considerably in excess of what would have been earned by the highest paid W.L.M.D. agent, even taking into account the retail operation. Although the contracts under which the earnings were paid were approved by the government, these 1980-81 commissions were probably larger than any party either expected or would consider acceptable in a government sponsored lottery scheme. Perhaps in recognition of this, Mr. Puchniak himself initiated the new contracts under which it was anticipated that earnings would be lower.

Under the new contracts, Thadeus Lotteries Management Ltd. will receive its actual expenses of operation, Mr. and Mrs. Puchniak jointly will earn $55,200.00, which, if the bonuses are paid, will increase to $65,200.00, and, in addition, their company will earn a "profit" (the 9% referred to above) of $16,900.00, which would be available to be paid out in dividends to the principals. The total of all this is $82,100.00, and, even assuming a very good result on the retail side of the business, it is likely that, out of these new contracts, the net benefit to Mr. and Mrs. Puchniak will be significantly less than their experience for the period ended August 31, 1981. If the sales and the gross revenues of the clients remain constant, the new contracts will be much more advantageous to the clients financially than the former agreements.

Mr. Puchniak is a good promoter and is worth a good fee. However, the fees, earnings and dividends payable to the Puchniaks from the distribution section of their lottery ticket business, Thadeus Lotteries Management Ltd., cannot be judged in isolation from those payable to the Puchniaks from the retail side. A large portion of the distribution of Thadeus Lotteries Management Ltd. is to its own retail outlets, so that, in a sense, the tickets so distributed attract fees at both the wholesale and retail levels. As mentioned, the retail results for the period ended March 31, 1983 have not been determined by the Inquiry. It may be that, in deciding the appropriateness of the total remuneration payable to the Puchniaks, whether in the form of fees, salary or dividends paid (or which might be paid) the government will want to take into account the results of, and the net revenues from, the retail outlets.

One approach which the government might consider in deciding the level of remuneration to be paid to Mr. Puchniak and his companies in future contracts, would be to simply allow Mr. and Mrs. Puchniak salary or management fees.

It might be questionable whether the 9% "profit", which is ostensibly for the work involved in "paying bills,arranging financing, accounting for expenditures", should be allowed in addition to the management fees. It might be considered that the management fees cover these latter services. The incentive "bonus" might be eliminated or reduced on the basis that much of Thadeus' distribution is to its own related retail outlet and so the incentive is required more at the retail than the wholesale level. A bonus should probably be allowed for the opening of new retail outlets other than through Thadeus Ltd. (Of course, in addition to the fees etc. earned by Mr. and Mrs. Puchniak from Thadeus Lotteries Management Ltd., they would have available to them their retail earnings through Thadeus Ltd.) With this approach, Mr. and Mrs. Puchniak could still earn a very comfortable return on both the wholesale and retail divisions of their lottery ticket enterprise.

The concept of paying the promoters a percentage of gross revenues received from T.C.I. is reasonable.

Certainly, the rationale for it is sound: to give the promoters a clear incentive to sell, because the gross revenues depend heavily upon the sales performance of the agencies. Such an incentive redounds to the benefit of both the agencies as well as the promoters, and indeed, as well, to the benefit of T.C.I. and W.L.M.D. Furthermore, under such a system, the agencies receive more than the promoters who have their own expenses.

One disadvantage to this method of remuneration is that it is open-ended and there is a potential problem of a situation developing where the promoter receives such a large payment that it might exceed what would be acceptable in a lottery for charity. This would be particularly so at the higher scales of 40% to 50% of the charity's share of T.C.I.'s distributions.

The concept of a fixed fee contract based on budgeted expenses is, in my view, sound and has several advantages. The first is that the amount of the fee is specified and fixed in advance and cannot increase virtually without limit - a possibility under the percentage of gross revenue contracts. Furthermore, the payment is based upon the expenses incurred by the promoter and, as long as the expenses are kept within reasonable limits, to that extent the agency is paying precisely what it should be paying for the services. The feature in the Thadeus contracts that the agencies are to have the benefit of any savings in expenses is a desirable added protection to them.

The one disadvantage in such a contract is that the agencies must pay the fixed fee and expenses to the promoter, irrespective of his performance. However, in the case of Thadeus, whose track record has been so good, it is not likely that this will create any problem. There is no reason to believe that it will not continue to sell at the same level as previously, thus yielding substantial benefits to the agencies. Moreover, the fee and expenses are established by the annual budget, which must be approved and agreed upon by the parties each year, so that in the event of a bad performance by the promoter, the agencies would be in a position to negotiate for a reduced fee for the subsequent year, or for an entirely different type of contract. Of course the agencies could always terminate the contracts under the provisions therein for termination on three months notice by either party.

In summary, the contracts comply with the master contract by which T.C.I. became a W.L.M.D. partner. With the exception of the new agreements between Thadeus and its clients, these contracts have all been approved by the government, and unless one or the other of the parties to them decides to exercise the termination privileges, they will last indefinitely. Therefore, very little can be done to alleviate any potential problems although, in the case of difficulties on termination, the government could be careful about approving new contracts where a promoter seeks to move from one agency to another or others. The government always has the option to intervene and legislate maximum commissions or other changes, and might do so if the situation got out of hand. However, because the parties are operating under contracts made in good faith, in accordance with the master agreement between T.C.I. and the government, and sanctioned by the government, it is presumed that any government intervention would be resorted to cautiously and only in special circumstances.

The new contracts between Thadeus and its clients have not as yet been approved, pending the results of this Inquiry. In my view, these new contracts represent an improvement over the previous contracts between the same parties. Since the first year of the contracts has now virtually been completed, and the monies payable thereunder advanced, there is little point in the government withholding approval of them. Nevertheless, that approval should be for the first year only, and should not extend beyond it until the government has had an opportunity to study the proposed budgets for the forthcoming year, which should be shortly coming up for, or may now be in the process of, review. The government can then consider whether or not to extend the approval for the next year. It is recommended that, before granting approval of the contracts, the Minister should: require a statement and verification of the sales, revenues and expenses from both the distribution and retail sides of the promoter Thadeus for the 1982-83 annual period; be satisfied that these reasonably correspond with the budget for the future period or periods, insofar as they apply to the distribution side; be satisfied that the management fees are reasonable, particularly in the light of the experience of the previous period and the profits yielded to Mr. Puchniak by the retail operations; and limit the approval to one year only, since the budget changes annually.

Controls

The agreement of January 21, 1980, between the Province of Manitoba, the Manitoba Lotteries Commission, Total Community Involvement Inc. and Western Lottery Manitoba Distributor Inc. requiring ministerial approval of promoters' contracts, and the new legislation permitting the Board to audit promoters' records, give to the government all the power it needs to control and regulate future contracts between T.C.I. member organizations and promoters. The problem is not one of adequate means of control, but rather a question of what general approach the government should take in granting, or withholding, approval of the contracts.

It is suggested that, as in the case of all private operators serving the lotteries industry, the government will want to ensure that a proposed contract between the promoter and the agency is fair and reasonably safeguards the interests of the agency, and that the remuneration proposed to be paid to the promoter is a fair, and not an excessive, return for his services.

The government should cause to be carried out a careful investigation into the background, character and financial worth of the proposed promoter.

The present standard contracts basically provide a good model for future contracts, but are deficient in such matters as providing for the rendering of exclusive services, termination and non-solicitation in the ways previously discussed. It is recommended that the government should address these points in all future contracts.

In determining the appropriateness of the remuneration to be paid to a promoter, the government has the direction contained in the agreement between the government and T.C.I., dated January 21, 1980, setting the maximum percentage of gross revenues - 50% - payable for commissions. In some cases, an agreement to pay that maximum would afford a perfectly reasonable compensation to the promoter; in other cases, it would not. It is submitted that in order to judge the appropriateness of the method and quantum of remuneration to be received by the promoter, the government should have available, in the case of existing promoters with previous experience, reliable information as to past sales, revenues and expenses, and a detailed budget for the future, and in the case of new promoters with no previous experience, a reliable and detailed budget of anticipated sales, revenues and expenses. (Incidentally, an example of this would be the new type of contract between Thadeus and its clients, which incorporates the concept of a budget and bases the remuneration on that budget.) In that way, the government would be better able to judge whether the remuneration proposed to be paid is or is likely to be at all disproportionate to the services to be rendered.

In the case of a proposed contract where the promoter is to be paid a percentage of the gross revenues, and where the scope of the operation is such that it could result in substantial revenues, the government could consider setting the percentage at a rate lower than the allowable limit of 50% or set a dollar limit on what can be earned by the promoter, or both; in the case of a proposed contract where the promoter is to be paid a fixed fee or a fixed fee and expenses, the government should be careful to ensure that the promoter's performance is likely to be such as to justify the fee.

Finally, all approvals should be limited in time so that the performance of the promoter can be reviewed and any necessary adjustments can be made.

T.C.I. AND W.L.M.D.

While the promoters are certainly doing a good job, it must be emphasized that the main beneficiaries of their efforts are the very limited number of agencies which they serve, although their work does benefit T.C.I. and all of its member agencies, as well as W.L.M.D. Obviously, the reason that certain member agencies have chosen to employ promoters is to enhance the members' sales performance, and to give them a greater share of the revenues of T.C.I. That is because, currently, T.C.I. distributes its W.L.M.D. revenues to its member agencies on the basis of 85% for sales performance, and 15% for need. How this has worked out in practice is dramatically illustrated in the cases of St. Paul's High School and the Royal Canadian Legion (Manitoba and Northwestern Ontario Command) selling tickets through Thadeus. In the 1980-81 period, these two agencies accounted for 55% of the total T.C.I. sales. Approximately 50% of the revenues of T.C.I. went to these two out of its 73 member agencies. This was unquestionably due to the excellent sales performance of those two agencies which, in turn, was largely due to the promoter Thadeus.

It would appear that this kind of a result may not have been intended.

In the agreement dated January 21, 1980, which provided for T.C.I. to become a full partner in W.L.M.D., there is found the following clause:

> "11. T.C.I. undertakes and agrees with Manitoba that, in dividing its share of distributor's profits, among its members the selling accomplishment of those of T.C.I.'s participating members who are now, or may hereafter become, retail representatives, or retailers of lottery products distributed by distributor, shall be neither the sole nor the principal criterion for determining the proportion of T.C.I. share of distributors' profits to which any member organization of T.C.I. is entitled."

Therefore, sales performance is not to be either the only criterion, or the principal criterion for distribution.

It would seem that this provision has not been honoured. The basis for distribution calls for a weighting of 85% for sales performance. Under this scheme, certainly, the sole criterion for apportionment of the T.C.I. revenues is not the sales accomplishment of member agencies, but sales accomplishment is surely the principal criterion, and that is wholly at variance with the agreement.

The relevant parties should make up their minds whether or not the above clause in the agreement is to be observed. If not, then the agreement should be changed, because it does not accord with the reality of the situation. If, on the other hand, the clause is to be observed, then a great deal less weight will have to be given to the sales performance of the individual member agencies of T.C.I. in determining their distributive shares of T.C.I.'s revenues. This, in turn, will have the effect of reducing, perhaps drastically, the commissions payable to those promoters now operating under percentage contracts, such as, for example, Mr. Van Walleghem and Mr. Auerbach, and might, as well, affect the amount of money which those agencies served by Thadeus are prepared to pay in promoters' fees.

In their report, in October, 1982, to the Manitoba Lotteries Commission, Price Waterhouse observed that there was competition between W.L.M.D. sales agents and T.C.I. member organizations, which tended to keep both organizations on their toes and which might have actually increased, or had the potential of increasing, total sales. They also pointed out, though, that W.L.M.D. and T.C.I. members' retail lottery networks overlap, causing certain administrative functions to be duplicated. They suggested a study to determine whether the benefits derived from any increased competition adequately offset any additional administrative costs incurred.

W.L.M.D. sources indicated to us that T.C.I. were selling an increasing percentage of the tickets being marketed through W.L.M.D., and that a certain amount of business had been transferred from W.L.M.D. to T.C.I. sales outlets. One recent significant transfer of business from W.L.M.D. to T.C.I. was the W.L.M.D. retail sales agency in Grant Park Shopping Centre. W.L.M.D. sources say that some business has been transferred the other way - from T.C.I.

to W.L.M.D. - but most of it has been from W.L.M.D. to T.C.I. W.L.M.D. sources fear that, if this trend were to continue, the W.L.M.D. distribution and sales network could be seriously undermined.

These problems suggest that there should be a review of, and perhaps some adjustment in, the workings of T.C.I. and its relationship with W.L.M.D.

One approach might be to meld the distribution systems of T.C.I. and W.L.M.D. into a single government sponsored distribution system. This would certainly have the desirable effect of achieving administrative savings and eliminating any potential threat to the present W.L.M.D. distribution network. T.C.I. would remain as a separate organization and as a full partner in W.L.M.D. The member agencies of T.C.I. would continue to act as retail representatives in the same manner as present. The persons now acting as promoters for individual T.C.I. agencies could be incorporated into the single system as sales agents, and could be treated and paid in much the same way as are the present W.L.M.D. sales agents. This would eliminate some of the potential problems involved in the use of promoters by individual T.C.I. member agencies.

Representatives of T.C.I. emphasized to the Inquiry that the organization was based on the concepts of independence and self-help. Certainly, these goals would not be impaired by a unified distribution network. T.C.I. would retain its independence as a separate entity enjoying full partnership in W.L.M.D. T.C.I.'s member agencies would still be able to "help themselves" by selling their own tickets.

On the other hand, in judging the viability of combining the distribution networks of T.C.I. and W.L.M.D., there are certain considerations which would have to be assessed.

In its brief to the Inquiry, T.C.I. submitted that W.L.M.D. would not have experienced the sales gains that it has in the past two years if T.C.I. had not existed as a complimentary selling force to the W.L.M.D. agents, and that the elimination of T.C.I. would eliminate the spirit of competition which exists between the two organizations and keeps both sales forces "on their toes". Some assessment would have to be made of the degree to which this competition is a factor - and a beneficial one - in the context of the total sales made by W.L.M.D. A single distribution system would still retain the benefit of the participation of T.C.I. member agencies as retail representatives and the ticket sales generated by these groups. In its brief, T.C.I. did make the point that "the tremendous potential of increased sales volume to Total Community Involvement....lies within the tens of thousands of committed members which support these groups. The sale of lottery tickets to relatives, friends, colleagues, co-workers, etc. by all of these people translates into substantial percentage and per capita growth increases for the Province of Manitoba. The potential of this group has been documented over the past two years, but has really only begun and so has only been partially realized."

The services of the promoters would, of course, be lost to T.C.I. and its member agencies as such, but could be retained on behalf of W.L.M.D. as a whole by employing the promoters as sales agents.

In any re-organization, there would probably have to be some protection for those T.C.I. member agencies which, through the use of promoters, have been able to enjoy substantial revenues and, on the basis of those revenues, have instituted programs and made commitments. This is probably particularly so in the case of St. Paul's High School, which had built up a very large sales network with the help of Thadeus, long before either W.L.M.D. or T.C.I. came into existence. It would not be reasonable if such agencies were abruptly deprived of revenues upon which they have become dependent, and which they had every reason to expect would continue.

Another approach which could be considered would be for the individual T.C.I. agencies now employing their own promoters to discontinue doing so and for T.C.I. to engage those same promoters, and possibly even others, to act on behalf of T.C.I. as a whole. The promoters could be paid fees comparable to W.L.M.D. agents having similiar territories and responsibilities, and those promoters like Thadeus might still act as retailers if they wished. This arrangement would eliminate some of the problems now associated with the promoters, would tend to keep their fees reasonable, and would lead to a more equitable distribution of T.C.I. revenues. At the same time, all of the T.C.I. agencies would benefit from the services of the promoters acting on behalf of the entire T.C.I. organization.

Such a plan would, of course, not address the problems of administrative overlap, or the potential disruptive effect of undue transfer of business from W.L.M.D. to T.C.I., but perhaps these concerns could be dealt with in other ways.

I am not in a position to recommend any particular solution to these problems. They are not part of my mandate , and I have not had an opportunity to thoroughly study the situation. I merely mention these possible approaches as a basis for discussion.

Obviously, any changes can and should be made only after the fullest consultation with all of the parties involved. Still, in my view, the concerns described above are of sufficient importance to warrant a review of the operation of T.C.I. and its relationship to W.L.M.D.

Other Retailers

The main private retailers are Thadeus Ltd. (already described) and InfoPlace Ticket Centre Ltd.

Infoplace Ticket Centre Ltd. is a company with its head office in Scarborough, Ontario, which has leased space in certain Manitoba shopping centres for the purpose of retailing lottery tickets. It operates at Kildonan Place, Winnipeg (opened September 23, 1980), Brandon Gallery, Brandon, (opened October 15, 1980), St. Vital Centre, Winnipeg(opened May 18, 1982) and Unicity Fashion Square, Winnipeg (opened May 18,1982).

For the year ended March 31, 1981, the outlets at Kildonan Place and Brandon Gallery sold just under 1% of lottery tickets sold in Manitoba. It is estimated that annual sales, from all four outlets will approximate 4% of all lottery tickets currentl sold in Manitoba, and will provide the company with an estimated annual commission income of $125,000.00. The company indicated that after salary costs of $88,000.00 paid to fourteen employees in Manitoba, directly involved in the retailing of lottery tickets, rent, and miscellaneous expenses, the company will earn approximately $20,000.00 for the year ending March 31, 1983, before depreciation, any allocation of head office administrative expense and income taxes.

The large retailers should be monitored by the government, and they should be required to submit financial information to the government annually.

Loto 6/49

Loto 6/49 is a new computer game produced by the Western Canada Lottery Foundation, and now marketed through W.L.M.D., commencing in June, 1982. It is a computer game whereby the customer can make his own selection or prediction as to what combinations of numbers will win. Dealing with a retailer who has in his possession a machine used to produce the tickets, the customer fills out a selection slip, each containing six "boards", each of which contains the numbers 1 to 49. Each "board" costs $1.00. The customer selects any numbers from 1 to 49 in one or more of the boards by placing a vertical stroke in the appropriate number box. He then presents the selection slip to the retailer, who, by using the machine, produces and delivers to the customer a printed ticket containing the number selected. The amount of the prize to be won is not known until all of the numbers selected are accumulated. The prize can be virtually for any amount. If the customer correctly picks three out of the six numbers selected in each board, he automatically wins the sum of $10.00. The draw is held each Saturday on T.V.

To date, approximately 114 licences to operate the machines in retail outlets have been approved; 21 applications are pending this review, due to the fact that they are located in malls, mostly controlled by private operators.

I was informed by a representative of W.L.M.D. that the sale of the 6/49 tickets is increasing all the time, and has been cutting into the sales of the ordinary lottery tickets, the "Provincial", "Western Express", and "Super Loto", but that what has been lost on the sale of the latter, has been made up by the sale of the 6/49 tickets.

Representatives of the Manitoba Lotteries and

Gaming Commission, W.L.M.D., Thadeus Ltd., the Brandon Shoppers Mall and the Garden City Shopping Centre in Winnipeg, have unanimously expressed the view that there is a great potential market for the installation of 6/49 machines in shopping malls because of the heavy traffic flow in those areas. Representatives of the two shopping centres seem most anxious to get the games in their malls.

The two private operators, Thadeus Ltd. and InfoPlace Ticket Centre Ltd., already have retail outlets in certain shopping centres and have applied for licences. These retail outlets, of course, lease their space from the owners of the shopping centres or malls, and so the latter would only be indirectly interested and affected. In other cases, the shopping malls themselves, or their representatives, have applied for licences, and these would include, for example, Grant Park Merchants Association, Dauphin Marketplace Mall Merchants Association, Brandon Shoppers Mall, Garden City Customer Service and others. These malls, presumably, would use their own space to set up their own outlets.

I cannot see any reason why these licences should not be granted. The sales potential is evidently great, and these applicants, who are experienced retailers, will be in a position to fully exploit this to the advantage of W.L.M.D.

The question is what remuneration should be paid by way of commission to the private operators?

In Ontario and Alberta the commissions are 5% for the 6/49 sales, and a 2% commission on any ticket prize redemptions. One might predict that, because of the popularity of the game so far, as evidenced by the experience of W.L.M.D., and the probable high potential for sales in shopping mall areas, the commission revenues are likely to be substantial. Therefore, care should be taken not to set the commission at too high a level. The commissions paid in Ontario and Alberta appear, on their face, to be relatively modest and could be utilized in Manitoba as well. It is suggested, however, that until some kind of record can be established with respect to the likely volume of sales and consequent profits to be earned in shopping malls, the commission rates should be open to review after the period of one year. Because of the potential high sales volumes, perhaps the commissions should initially be fixed at a slightly lower level than for other operators and should be in the range of 3-5%.

BREAK-OPEN TICKETS

Introductory

The sale of break-open tickets has virtually exploded in recent years, with the licences escalating from 79 in 1977 to 1,075 in 1981. The gross receipts increased from $2,080,000.00 in 1977 to $50,870,000.00 in 1981. In the same period the profits to charities increased from $490,000.00 in 1977 to $8,860,000.00 in 1981. A summary of the operating results of this lottery is appended as Schedule "D" .

In 1981 the total gross receipts of all lottery activities under the control of the Manitoba Lotteries and Gaming Control Commission and Gaming Licencing Board were $111,600,000.00. Therefore, the gross receipts from the sale of break-open tickets in that year amounted to approximately 45% of the total receipts from all lotteries in the province.

These figures illustrate the rapid growth of this portion of the industry and its present importance. Anybody may manufacture or distribute the tickets. Controls are minimal.

"Break-open" tickets are also known as "pull tab" or "Nevada" tickets. A typical break-open ticket is oblong in shape and has printed on its face a series of symbols of bars, bells, oranges, lemons and cherries with a figure for a prize printed opposite each series, namely, $1.00, $5.00, $10.00, $25.00, and $50.00. On the reverse side of the ticket are perforated pull tabs which correspond in position with the series printed on the face of the ticket; underneath the tabs are concealed pictures of the same objects as on the front of the ticket; the pull tabs may be torn open to reveal the symbols printed underneath, and if any of these symbols match the series of winning symbols on the front the corresponding prize is won. The tickets sell usually for 50¢ each, and the prize may be instantly claimed from the vendor. The prize payout is high (in Manitoba averaging 74%) and so there is a very good chance of instantly winning a sum of money. It is probably for these reasons that the tickets are so very popular and account for such an enormous share of the total lottery market in the Province of Manitoba.

In Manitoba, they are licenced to be sold in private clubs, at bingos, at casinos, and latterly, in commercial hotels. The sale of these tickets forms an important part of the revenue of the organizations which sell them, and at bingos is very often the difference between a profit and a loss.

In this field, the private operators examined were the manufacturers of the tickets, the distributors and, as well, certain members of the Manitoba Hotel Association involved in the retail sale of the tickets.

Manitoba

Break-open tickets sold in Manitoba are manufactured both inside and outside of the Province. There are two manufacturers in Manitoba: Saults and Pollard Ltd. and Wallingford Press. Saults and Pollard Ltd. accounts for the major portion of the market in Manitoba and is the exclusive manufacturer of those tickets sold through the commercial hotels. Another major manufacturer of break-open tickets sold in Manitoba is an Ontario company, manufacturing tickets for Bazaar Novelty Company of Toronto, Ontario.

In Manitoba, the break-open tickets are distributed to the licencees through ticket distributors approved by the Licencing Board. The manufacturers do not sell the tickets directly to the licencees. The Board provided me with the names of a number of distributors of break-open tickets including Action Novelty Ltd. (a franchise of Bazaar Novelty of Toronto), Eastern Smallwares, Golden and Company, International Gaming Supplies, Kurly Enterprises (a sales agent of Bazaar and Novelty Company), Maple Leaf Sales, Nemies Agencies, Play-All Bingo Supply House, QZX Distributors, Rainbow Novelty Supplies and Trach Distributing Agencies Ltd. All of these companies operate in the City of Winnipeg, with the exception of Rainbow Novelty Supplies, which operates from Canora, Saskatchewan, and QZX, which operates from Thompson, Manitoba.

Of course, any person wishing to retail break-open tickets must have a licence to do so from the Licencing Board. However, it is not necessary that either the manufacturers or the distributors be licenced. According to present Board rules the distributors (but not the manufacturers) must be approved by the Licencing Board.

Other Jurisdictions

We enquired into the situation in other provinces with respect to the sale of, and policies governing the sale of, break-open tickets.

We were informed by the B.C. Lotteries Branch in the Province of British Columbia that the province has never licenced this form of lottery and is highly unlikely to do so in the immediate future. They have had some problems with trafficking in the tickets and have made occasional seizures of them, but regard them as "more of a nuisance" than anything else.

On or about December 1, 1982, break-open tickets were first licenced in Saskatchewan, although they had been distributed there before.

Break-open tickets are licenced for sale in Ontario. There appear to be no uniform regulations governing their sale,which is left to individual municipalities to control.

Break-open tickets are licenced for sale in the Province of Alberta, but only organizations that have their own premises in which to operate a scheme for the sale of these tickets, will be eligible for a licence. It is interesting to note that Alberta does not allow the sale of the tickets within hotels.

Each distributor and supplier of break-open tickets in Alberta must be registered with the province, and, should a distributor or supplier not be so registered, it may not conduct business with any charity licenced to sell the tickets. All distributors and suppliers must file returns with the Alberta Gaming Commission twice yearly. Each carton of tickets contains a separate licence unto itself. There are 816 tickets per box, the total prize pay-out is some 75% of the price of the box, and a $216.00 net profit is gained from each box. The Lotteries Licencing Board in the Province attempts to monitor the quality of the tickets,and will not issue a licence to sell them unless it is satisfied that the quality is reasonably good.

The sale of these tickets is not permitted in either Nova Scotia or New Brunswick.

The State of North Dakota permits the sale of break-open tickets. They have in place a number of regulations governing the distribution of these tickets. First, they may only be distributed by a licenced distributor, although the definition of a distributor does not include a resident printer which sells directly to eligible organizations. Each manufacturer must have a serial number, which is to appear on its products. In North Dakota every box of break-open tickets is termed a "deal", which is a separate, serialized package of tickets purchased from a distributor. The State Attorney-General provides each distributor with consecutively numbered State identification stamps, and it is the duty of the distributor to place these stamps on each "deal" or box of tickets. A distributor must write a manufacturer's serial number on the box. Each distributor is to maintain books and records relating to their purchases and sales, and the State has the power to examine these records. No distributor can sell to any person or organization which has not first been licenced by the State. Each distributor must file a copy of each of its sales invoices with the State Attorney-General on a monthly basis. No "deal" of tickets may be displayed for sale unless they have affixed thereto the manufacturer's serial number and the State gaming stamp.

The State of Michigan has recently promulgated rules with respect to the manufacture, distribution and sale of break-open tickets. These appear to be exhaustive and tight, and are therefore of considerable interest to any government authority considering how best to deal with and control the sale of these tickets. A copy of the legislation and regulations establishing these controls was delivered to us by the Manitoba Lotteries Gaming & Licencing Board.

First of all, the State itself purchases the tickets directly from the manufacturers, and calls for tenders for this purpose. The tender documents are very complete, and cover the State's requirements for the development, manufacture and delivery of the tickets. For example, they require bonding, liability insurance for errors in tickets and for copyright, trademark, or patent violations, right of inspection of manufacturing processes, extensive background information on the proposed contractor, the delivery of sample tickets, printing plant security, ticket quality, (including ticket construction, ticket sealing and glueing, the type of play images, die cut openings and perforations, serial number, packaging, art work, durability, ticket security etc.)

The manufacturers are not licenced, but it is apparent that all of the controls which might be imposed through licencing are built in to the supply contract between the manufacturer and the State, so that essential matters such as plant and ticket security, and ticket quality, are assured.

Only licenced suppliers physically located in Michigan and approved by the State Lottery Commission, are authorized to sell break-open tickets. They must be bonded. They must maintain records for each sale of tickets, and if required, must submit these records and invoices to the State Lotteries Commissioner.

Finally, of course, the tickets may be purchased only by organizations that have been licenced by the State to sell them.

The tickets are to be sold by the State or, alternatively, by licenced suppliers for $100.00 per box. The suppliers may purchase the tickets from the State at a price of $87.00 per box, and so it would appear that, on re-sale, the suppliers would realize a mark-up of $13.00 per box, or 13%.

In the State of Nevada break-open tickets are not allowed at all.

The Manufacturers

Saults and Pollard (1971) Limited is a printing company with offices and plant situated at 1499 Buffalo Place in the City of Winnipeg. The plant consists of approximately 40,000 square feet, and the company employs approximately 125 persons. The company is a third generation family printing business, with Mr. Lawrie O. Pollard as president. It is a well established and reputable firm, both nationally and internationally, which has specialized in security printing and has produced such items as bank forms, stamps and lottery tickets. Seven years ago the company was the first in Canada to manufacture break-open tickets, and presently believe themselves to be one of two major printers of these tickets in Canada. Mr. Pollard informed the Inquiry that he estimated his company printed 85 % of all of the break-open tickets sold within the Province of Manitoba. The company sells all of its break-open tickets to Play-All Ltd. as distributor. Play-All distributes some of the tickets in Alberta, Saskatchewan, Ontario, and some foreign countries.

Wallingford Press Limited is a printing company, with offices and plant situated at 358 Ross Avenue in the City of Winnipeg in Manitoba. The plant consists of approximately 19,000 square feet, and the firm employs 52 persons. The company has been in the printing business for over sixty years and enjoys a good reputation in the community. The president of the company is Mr. Frank Scherer.

The firm's largest wholesale purchaser and distributor is International Gaming Supplies Ltd. whose principal is Mr. Gene Shelley. The firm started printing the tickets through the encouragement of Mr. Shelley.

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Because of the nature of the product, plant security, and security in the manufacturing process, are important. Both of the manufacturers studied have recognized this, and have made an effort to achieve reasonable standards of security. The Inquiry studied the plant security and security measures taken therein, and in my view, security in both of the plants is adequate.

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There were initially quality and security problems with the break-open tickets. They were manufactured in such a way that in some cases it was possible to detect the winners in advance of actually breaking open the tickets, and with a little trouble, tickets could be altered so as to appear to be winning tickets. Gradually, these problems were overcome, and now the tickets are of a much higher standard of quality and security. Nevertheless, they could be improved still further. That this is so, is not a reflection upon the competence of the manufacturers. They have responded very well and quickly to problems as they arose, and have been working hard to improve their product. Customer acceptance is one factor. The better the tickets, the higher the cost, and some customers are not prepared to pay the price. As an example, the manufacturer, Saults and Pollard Ltd., has produced a type of ticket with a security feature which makes it very difficult for the ticket to be tampered with and falsely passed off as a winning ticket. There is a certain cost to this security feature, and not all of the licencees feel that the cost is justified, and are prepared to pay it. If all tickets are not now uniformly as good as they might be, that is largely due to the fact that the government has never laid down specific controls and standards to compel the production and use of the very best kind of ticket.

For obvious security reasons, I will not detail, in this public document, all of the Inquiry's findings respecting ticket quality, and ways in which it might be improved. I will, however, prepare and send a confidential memorandum on this subject to the government.

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An analysis of the financial aspects and profitability of the two Manitoba manufacturers follows.

The operating results of Saults and Pollard (1971) Limited for the year ended October 31, 1982, were reviewed with the president, Mr. L. Pollard, and a representative of the company's auditors. It is believed that the following statement of operations is a fair representation of the company's 1982 break-open ticket operations in Manitoba. It must be emphasized that this statement relates only to the company's break-open operations in Manitoba, and does not take into account their sales outside of the province. It was necessary for the Inquiry accountants to attempt to separate out the Manitoba sales from the total sales, and make an allocation of the cost of those sales in relation to the company'a total cost of sales. The results of this exercise were:

Sales	$1,778,000.00
Cost of Sales	1,300,000.00
Gross Profit	478,000.00
Allocation of Selling & Administration Expenses Before Compensation to Principal	265,000.00
Net Profit Before Tax & Compensation to Principal	$213,000.00

There are three principals in the company, and of these, only one devotes his time to the break-open operations. Executive compensation of $56,000.00 was paid in respect of Manitoba sales and if this were deemed appropriate for that principal for his work in the break-open field, then the company would have realized a net profit before tax of approximately $157,000.00.

The company indicated that their total investment in building and equipment for production of break-open tickets for sale in Manitoba, up to and including October 31, 1982, was approximately $730,000.00.

Therefore, it would appear that the company is earning a good, but probably reasonable, return on its capital investment.

Wallingford Press only began production of break-open tickets in 1982. Mr. Scherer, president, indicated that his sales for the first production run amounted to $66,133.00. The second production run was under way but no sales have been reported in 1982. The company indicated that because of set up (plates, artwork etc.) their costs for this first year would be in excess of sales. But once things were normalized, they expected to reflect at least a 20% gross profit on sales before allocation of any selling and administration expenses.

Sales from the first run represented 3,779 boxes while the second run's sales could be three or four times that amount.

Since the operations were not significant, our accountants did not examine or report on the financial operations of Wallingford Press.

In summary then, Saults and Pollard - by far the larger of the two Manitoba manufacturers, and with a considerable investment in plant and equipment related to break-open ticket production - has enjoyed good, but not unreasonable, profits from its production and sales in that field, bearing in mind the size of that investment. Wallingford Press Ltd., - the other and smaller Manitoba manufacturer of break-open tickets - has not been in business long enough to show a profit, but their projected gross profit of 20% appears to be reasonable, if not on the low side.

Distributors

The manufacturers sell the tickets to wholesalers or distributors whc,in turn, sell or distribute the tickets to the various retail outlets licenced to sell them. The Inquiry did not interview representatives of, or examine the operations of, all of the wholesalers and distributors in Manitoba. The Inquiry did, however, study the activities of the principal distributors, namely Play-All Ltd., International Gaming Supplies, and Action Novelty Ltd.

Of these distributors, by far the most important and the largest is Play-All Ltd. Saults and Pollard Limited manufactures most of the break-open tickets in Manitoba, and these are distributed through Play-All Ltd.

The principals of Play-All Ltd. are Mr. John Balderstone and Mr. Clayton Nellis, of the City of Winnipeg. Play-All presently has its office and premises at 449 St. Mary's Road, in the City of Winnipeg. These premises consist of business offices, a showroom and a warehouse, and occupy approximately 8,000 square feet. The firm is in the business of wholesaling and selling many types of gaming supplies. They also sell trophies and have three full time engravers on their staff. They presently employ 23 people, including seven salesmen, with the remainder office and warehouse staff. They have branches in Saskatchewan, Alberta and Ontario.

They have a verbal agreement with Saults and Pollard Limited whereby they are to act as exclusive distributors for that company. In addition, Play-All Ltd. is the exclusive distributor of the tickets for the St. Boniface Hospital Research Foundation to the commercial hotels in Manitoba selling break-open tickets for that licencee.

Saults and Pollard Limited deliver the products to Play-All's warehouse where they are stored, ready for instant delivery to the purchasers.

Play-All Ltd. employs Rainbow Messenger and Transfer to do all of Play-All's deliveries within a 50 mile radius of Winnipeg. Rainbow makes available two trucks which are used exclusively for Play-All business. The trucks are owned by Rainbow,but have Play-All insignia on them. There are two daily deliveries.

All rural deliveries are by bus or truck, depending on the size of the delivery.

All city sales made by Play-All are C.O.D., and delivery of rural sales is only made after the customers have paid in advance.

International Gaming Supplies is owned and operated by Mr. Gene Shelley. He has had a long experience in the gaming industry in Manitoba, and formerly was in the casino management business with his wife, Mrs. Verna Shelley, of Casino Management Services. Mr. Shelley is no longer involved in casino management, and now solely devotes himself to the supply of goods to the gaming industry. Amongst other supplies, he wholesales break-open tickets to retailers licenced to sell them. In turn, his supplier is the manufacturer, Wallingford Press Ltd.

Action Novelty Ltd., the principals of which are Douglas Price and his partner, Douglas McKenzie, operates a franchise business under the name of Bazaar Novelty. Bazaar Novelty, the franchisor, has its headquarters in Toronto, Ontario.

Bazaar has premises at 508 Airlies Street, where there are the business offices, a showroom and a stockroom comprising approximately 1400 square feet. As well, there is some storage space on Johnson Avenue in Winnipeg.

The territory of the company is all Manitoba, and a small part of north-west Ontario in and around the Kenora region. The company is staffed by two partners, two secretaries, one full time and one part time, and four part time commission salesmen who work on a 10% commission. One of the sales outlets is actually a separate company, Kurly Enterprises, which is the largest commission sales agency representing Bazaar in Manitoba.

The company not only distributes break-open tickets, but also other gaming supplies such as bingo paper and cards. It has approximately 80 to 90 break-open customers, including legions, clubs and bingo halls. It has no hotels as customers.

All of Bazaar's material, tickets etc. are manufactured by an Ontario printer for Bazaar Novelty in Toronto.

The materials are delivered right to the company's premises in Winnipeg by Consolidated Fast Freight. The supplies are then warehoused at the premises and delivered either by Pony Express or Zipper Courier to the customers. Transportation charges are paid by the company in most cases, although with very small orders there is an arrangement that the customer will pay.

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Somebody must distribute the tickets and the private operators in this field appear to be doing an efficient job. They all have adequate facilities to store the tickets pending distribution, and have made suitable arrangements for the actual physical delivery of the tickets to the licencees. The Inquiry received no complaints whatsoever regarding the distributors or their service.

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I will proceed now to a review of the finances and profits of the distributors.

Play-All Ltd. operates an integrated business on a national basis. This has made it difficult to isolate the company's investment in, revenues from, and expenses pertaining to break-open tickets sold in the Province of Manitoba.

In 1981, through a series of transactions, Clay Nellis and Jack Balderstone became 90% and 10% shareholders, respectively, in Play-All Ltd.

Our accountants understand from discussions with the shareholders and their accountant that consideration given in respect of these transactions was based on the parties involved valuing the company at $1,000,000.00. Accordingly, the net worth of the company exceeds the net book value by approximately $600,000.00. We believe that this excess, while partly due to the appreciation of the company's real estate holdings, was mostly due to the estimated future earnings potential or goodwill of the break-open ticket operations both within Manitoba and elsewhere.

Based on limited knowledge of the details of the actual transactions referred to above, and a review of the company's assets, our accountants have attributed $400,000.00 as the principals' investment in the break-open operations in Manitoba.

We reviewed the 1981 operating results of Play-All Ltd. with its principals, Mr. Clay Nellis and Mr. Jack Balderstone, and their accountant. Based on information provided, we believe the following is a reasonable allocation of the company's revenue and expenses pertaining to the sale of break-open tickets in Manitoba.

Sales		$1,860,000
Cost of Sales		1,160,000
Trading Margin		700,000
Expenses:		
Salaries and commission (excluding principals')	$234,000	
Automobile and travel	45,000	
Advertising and entertainment	67,000	
Interest	27,000	
Office	18,000	
Professional fees	15,000	
Telephone	8,000	
Building and utilities	8,000	
Depreciation	7,000	
Freight	11,000	
		440,000
Net profit before payments to principals and income taxes -		$ 260,000

The company allocated expenses slightly differently. After taking into account their calculations, I can conclude that the company's net income, before payments to principals and income taxes, from the sale of break-open tickets in Manitoba is between $234,000.00 and $260,000.00 and accounts for approximately 60% of the company's income. It should be borne in mind that after remunerating the principals for their efforts the net profits generated by the company should provide a return on the principals' investment of $400,000.00. Nevertheless, those profits are obviously excellent. Moreover, in 1982, the company will have sold an additional $600,000.00 of break-open tickets to hotels over and above what was sold in 1981. These additional sales will generate an additional $100,000.00 of net profit before taxes and payments to the principals.

Mr. Doug Price of Action Novelty Ltd. (Bazaar Novelty franchise) Winnipeg, supplied the Commission of Inquiry with financial information in respect of their years of operations.

The following represents the results of operations for the year ended February 28, 1982 for the break-open ticket operation. The break-open ticket operation represents approximately 69% of the entire Winnipeg operation.

Sales		$340,000
Cost of Sales		
Purchases	$235,000	
Freight	12,000	
		247,000
Gross Profit		93,000
Expenses:		
Advertising	$ 4,600	
Automobile	2,200	
Wages & Commission	25,200	
Office Salaries	32,300	
		64,300
Net profit before tax and compensation to principals		$28,700

If compensation that was paid for the Nevada ticket operation to the two principals in the aggregate amount of $21,400.00 were deemed appropriate, then the net profit before tax would be $7,300.00.

Mr. Gene Shelley, the principal of International Gaming Supplies, reported his operating results to November 1982 as follows:

Sales	$84,985
Cost of Sales	47,529
	37,456
Overhead Allocation	24,561
Net profit before tax	$12,895

Since the operations were not significant, our accountants did not examine or report on the financial aspects of the operations of International Gaming Supplies.

In summary then, Play-All Ltd. - by far the largest and the most important distributor of break-open tickets in Manitoba - has enjoyed excellent profits from its sales of that product; Action Novelty Ltd. (Bazaar Novelty) - whose operation is much smaller but still of significance - has enjoyed good, but reasonable profits on its sales of the product; Mr. Gene Shelley - carrying on business as International Gaming Supplies, as the exclusive distributor of the production of Wallingford press - has only been distributing break-open tickets for a relatively short time, and has not yet developed a really significant business in that regard; his profits to date have apparently been modest.

Hotels

Commercial hotels, all members of the Manitoba Hotel Association, have become an important outlet for the sale of break-open tickets on their premises. These sales are all for the benefit of one licencee, namely the St. Boniface Hospital Research Foundation Inc. and as mentioned, the exclusive manufacturer and distributor of these tickets are respectively Saults and Pollard Limited and Play-All Ltd.

The St. Boniface General Hospital Research Foundation Inc. desires to build a research building located on the grounds of the St. Boniface Hospital in Winnipeg, to be attached to the hospital, at a cost of approximately six million dollars. Mr. G. Campbell MacLean, Q.C., chairman of the foundation, stated that it was his understanding that there was no provincial money available for construction of research facilities and, accordingly, some means had to be found to raise the six million dollars. Mr. MacLean was able to persuade the provincial government to grant a licence to the foundation to sell break-open tickets through the hotels in Manitoba strictly on a trial basis.

Mr. MacLean stated that it was his understanding that the monies raised from the ticket sales would be used specifically for the construction of the research building, and that the foundation would be responsible for raising money through other sources to facilitate the operation of the different research projects to be carried on within the building. He stated that he understood that once the money for construction has been raised, any balance is to be turned over to the government, specifically to the Provincial Government Committee on Research, to be used for specific projects that would be allocated by it.

The question of selling break-open tickets in hotels was first broached to the Norwood Hotel in Winnipeg. This led to a meeting being arranged with the Manitoba Hotel Association and the St. Boniface Hospital Research Foundation, to discuss the matter, and after a number of further meetings, the system for the distribution of the tickets was established. The first hotel to sell the tickets was the Norwood Hotel, and finally, approximately 203 hotels in the province became engaged, and are engaged, in the sale of break-open tickets on their premises. Thirty-five to forty applications are pending this review.

The sales in hotels commenced in July, 1981, and in that month one case was sold to the Norwood Hotel. In May, 1982, 322 cases were sold in all hotels during that month. Each case contains six boxes of tickets; and each box contains 2,184 tickets which are sold for 50¢ each retail.

By the end of June, 1982, that is in a period of approximately one year, the St. Boniface Hospital Research Foundation Inc. had earned a clear profit in excess of 1.8 million dollars.

The system, devised by the St. Boniface General Hospital Research Foundation Inc. and the Manitoba Hotel Association, for the sale of the tickets, is: they are distributed solely by Play-All Ltd. directly to the Manitoba hotels licenced to sell the tickets; the individual hotels pay for the tickets in advance; the hotels then retail the tickets in their premises and pay out the cash prizes and reimburse themselves for their costs and commissions from the sale proceeds; the purchase price of the tickets is paid by Play-All into one bank account at the Canadian Imperial Bank of Commerce; one cheque is drawn on this account, payable to the Research Foundation, for its share of the proceeds, and a second cheque is drawn on the account payable to Play-All for its share, representing the sale price of the tickets from Play-All to the individual hotels. Play-All prepares a separate ledger for each hotel, and posts sales and receipts to this separate ledger. A separate daily deposit of receipts from the sales to the hotels is then made to the bank account at the Canadian Imperial Bank of Commerce.

In 1981 5,900 boxes of tickets with a retail value in excess of $6,100,000.00 were distributed to Manitoba hotels by Play-All Ltd. for sale to the public. The Manitoba

Hotel Association and Play-All Ltd. have created a large market for these tickets and, in 1982, Play-All Ltd. distributed tickets with a retail value in excess of $20,000,000.00 to hotels for sale to the public.

The schedule of cash distribution per box of break-open tickets is attached as Schedule "E" .

The number of boxes of tickets sold for each hotel in 1982 is attached as Schedule "F"; these totalled 18,865 boxes distributed as follows:

		Net Revenue Before Expenses
144	Hotels selling less than 100 boxes	0 - $11,000.00
31	Hotels selling 100 to 250 boxes	11 - $27,000.00
12	Hotels selling 251 to 500 boxes	27 - $54,000.00
7	Hotels selling over 500 boxes	54 - $161,000.00
194		

Seven hotels selling 25% of such tickets in Manitoba supplied information regarding the sale of break-open tickets in their hotels. One hotel hired two additional employees to sell the tickets; three others hired one additional employee; one was paying commission to an individual to sell the tickets; and the other two were paying commissions and bonuses to their current staff to promote the sale of the tickets.

Apart from the additional salary costs, the hotels had incurred various incidental costs in restructuring their facilities to promote the sale of tickets, and continue to incur additional incidental costs such as cleaning, garbage removal, cash shortages and interest charges on unsold tickets.

For the hotels selling in excess of 500 boxes per year, the Inquiry estimates that approximately 75% of the commission revenue earned by the hotel is retained by the hotel to pay bonuses to key management personnel, to provide additional profit for the hotel and pay additional income taxes. As the number of boxes sold declines below 500 on a yearly basis, the percentage of this amount retained by the hotel also declines. As a result, a hotel selling 500 boxes per year, will earn gross revenue of $54,000.00 and retain a net profit before management and owner remuneration and income taxes of $40,000.00. At the same time, $59,000.00 will be raised for the St. Boniface Hospital Research Foundation.

The seven hotels selling in excess of 500 boxes of tickets in 1982 would have had the following results:

	Net Revenue Before Expenses	Amount raised for the St. Boniface Hospital Research Foundation
McLaren Hotel	$161,000	$175,000
Thompson Inn	93,000	101,000
Curtis Gordon Motor Hotel	78,000	83,000
Norwood Hotel	69,000	75,000
Yale Hotel	59,000	63,000
Patricia Hotel	57,000	61,000
LaSale Hotel	56,000	61,000
	$573,000	$619,000

The majority of the hotels (144) are selling less than 100 boxes of break-open tickets annually, and are taking in net receipts before expenses of up to $11,000.00 for their efforts. In some cases, that would make a nice addition to revenues, but could hardly be regarded as excessive.

The remainder of the hotels (50), selling in excess of 100 boxes annually, do somewhat better, and, of these, 19 have been doing very well indeed, particularly the seven hotels which have been able to sell over 500 boxes.

It should be noted that the hotels are receiving no more than they are entitled to receive under the present rules emanating from the Licencing Board. The standard terms and conditions for break-open ticket licences (which are applicable to the licencee in question - the St. Boniface Hospital Research Foundation) provide that the total expenses incurred in the conduct and management of a unit of break-open tickets, excluding ticket purchase price and licence fee, shall not exceed 10% of the receipts therefrom. The amount paid to the hotels from the gross receipts derived from each box of tickets, is 10%, as can be seen from the above Schedule "E", which shows that, out of the gross sales of one box containing 2,184 tickets, that is $1,092.00, the amount paid to the hotels is $109.20. It may be that, with the experience of the high earnings of some of the hotels relating to the sale of break-open tickets, the Board will want to consider a reducing percentage scale of commissions or remuneration to the hotels. For example, for hotels selling less than 100 boxes, the percentage could remain as it is, at 10%, but for those selling in excess of 100 boxes, the percentage could be reduced on that excess. This would produce more money for the charity, and yet would still leave the hotels with reasonable compensation for their services.

General Distribution of Receipts from Sale of Break-Open Tickets

The Inquiry accountants have made a study of the distribution of receipts from the sale of break-open tickets in Manitoba, with a view to ascertaining what percentages of the receipts are paid to the government for licence fees, the private operators, and finally, the licencees - the charitable and community organizations themselves. This study was based on data accumulated from studies of the financial operations of the private operators and records filed with the Manitoba Lotteries and Gaming Control Commission. The results of the study for 1981 are as follows:

1981

Distribution of Receipts from Sale of Break-open Tickets

(Based on the sale of a typical box of break-open tickets containing 1664 tickets)

	Average Per Box	
Gross receipts	$ 832	
Prizes paid out	600	
Gross Margin	232	100%

CARRIED FORWARD -

	Government	Distributor	Printer	Total	Average Per Box	
BROUGHT FORWARD -					$ 232	100%
Provincial Licencing Fee	$ 12			$12		
Provincial Sales Tax	2			2		
Federal Sales Tax	2			2		
				$16		7%
Costs to produce tickets			14	14		6%
Selling and Administration Expense		10	3	13		5%
Profits before compensation to principals		5	2	7		3%
		15	19	$34	50	21%
Net receipts to charitable & community organizations					182	79%
Expenses of Charities, etc.					22	10%
Net profits to charitable & community organizations					$ 160	69%

From the above, it can be readily seen that by far the greatest percentage of the net receipts from break-open ticket sales was payable to the licencees, which received 79% of the total. Their own expenses were 10% leaving them with net profits of 69%.

Much lesser percentages were taken by the governments for licence fees and sales tax (7%) and by the private operators, that is the printers and distributors which received 14%. A considerable portion of that 14% of course, was absorbed in the private operators' own expenses, that is, costs to produce the tickets and selling and administrative expenses (11%), leaving them with profits of 3% (before principals' compensation and income tax).

Unauthorized Sales and Abuses

The present government regulations provide that break-open tickets can only be sold to the public by or on behalf of duly authorized licencees. However, anybody can manufacture the tickets and anybody can distribute them to the licencees. There is absolutely nothing to prevent an unscrupulous distributor supplying the tickets to unlicenced persons, or to anyone willing to pay the price. The problem is compounded by the fact that it is not only the manufacturers and distributors known to be regularly carrying on business in the province which are involved in the system. Presumably, anybody can obtain and distribute the tickets to anybody else on an irregular or casual basis; moreover, tickets may be and are brought in from outside of the province.

The Inquiry interviewed representatives of the R.C.M.P. and the City of Winnipeg Police Department, and they expressed concern over the apparent lack of controls respecting the manufacture and distribution of break-open tickets in this province. The City of Winnipeg Police Department were able to cite several incidents involving break-open tickets as follows:

On December 18, 1981 St. Emile School was broken into and 29 boxes of Nevada tickets stolen. The culprits went through the boxes and picked out the winners, some of which were cashed in Main Street hotels in Winnipeg.

In December of 1981 an adult male was stopped on a spot check and found to be in possession of a three-quarter full box of Nevada tickets. He admitted selling tickets to people in beverage rooms, and claimed he bought the tickets from an unidentified male. Further investigation revealed the tickets came from a firm in Alberta which had gone out of business.

Information was received early in 1982 that local criminals were selling tickets to service clubs with the $50.00 tickets removed. An accomplice would then attend at other locations and cash the tickets in. It was discovered that the origin of these tickets was once again a distributor in Alberta.

The police say there have been numerous complaints of forged or altered tickets being cashed in locations other than where they were purchased.

The Inquiry has no statistics to demonstrate the extent to which unauthorized sales have been, and are, occurring. However, the fact that there are no controls prohibiting persons from wholesaling the tickets to unlicenced persons surely creates a situation in which unauthorized sales might flourish, and this is not desirable.

Nor does the Inquiry have statistics to demonstrate the extent to which the fraudulent use of tickets is a problem. The local manufacturers have instituted controls which make it more difficult than previously to detect winning tickets in advance, and to alter tickets so that they appear to be winners. Therefore, the number of complaints in this regard should diminish.

Controls

It is submitted that to best protect the licencees and the public, there are certain aspects relating to the manufacture and distribution of break-open tickets which it is desirable to ensure: integrity and reliability of the manufacturers and distributors themselves, high ticket quality, reasonable security, reasonable cost and the prevention of sales by non-licenced and unauthorized persons.

In a brief submitted to the Inquiry by counsel for one of the present Manitoba manufacturers, Saults and Pollard Ltd., it was stated:

> "The standards applied for a licence, should not just be one of skill, but include experience and, most important of all, the character, ethics, principles, and financial viability of those involved."

I agree.

Certainly, the manufacturers and distributors studied by the Inquiry, all appear to be financially sound and well able to fulfil their obligations to their customers. No evidence was presented to the Inquiry reflecting adversely upon their character and ethics, although the principals of the distributor, Play-All Ltd., are presently facing fraud charges in relation to dealings with one of their former customers, but these are yet to be proved. (The history of these charges is covered in the final portion of this report headed "Incidental and Miscellaneous" under the section dealing with the Kinsmen

Club of Winnipeg.) However, it is desirable that the public be assured that all persons seeking to enter the business of manufacturing and distributing lottery products should be of good character and credit. Presently, this is not addressed anywhere in the legislation or the regulations. The Board has issued a list of "terms and conditions" relating to the sale of break-open tickets. Presumably, these are intended to become part of the terms and conditions of licences granted to the licencees. These terms and conditions do stipulate that break-open tickets must be purchased from a distributor "as approved by the Board". Therefore, the Board can control the distribution by restricting the licencees to dealing only with the distributors approved by the Board. However, the terms and conditions do not purport to apply directly to the distributors, and there is nothing in the present law which would require distributors to demonstrate to the Board that they are suitable. The terms and conditions are completely silent as to the qualifications of manufacturers.

Obviously, the tickets must be of the highest quality, particularly from the standpoint of security. They should be manufactured in such a way that it is at least extremely difficult, if not impossible, for unauthorized persons to tamper with them, for example, by discovering in advance whether the tickets are winners. The manufacturers and distributors have been working together to improve the quality of the tickets and to make them as secure as possible. I have dealt with the quality of the tickets previously, and while they are of reasonable quality, they still can and should be improved.

Presently, although the Licencing Board attempts to monitor ticket type and quality, the tickets produced are to the specifications of the distributors. Thus, it is not the licencing authority which stipulates type and quality and which sets standards - it is the distributors.

The terms and conditions relating to the sale of break-open tickets stipulate only that the "type" of tickets must be approved by the Board. This still leaves the initiative to the distributors, does not relate specifically to the quality of the tickets, and certainly does not purport to lay down any standards - even the most general - regarding the specifications for, and quality of, the tickets.

It is recommended that the government, through the Licencing Board, should sponsor an official government break-open ticket (or series of tickets), which would be the only ticket (or series) allowed to be distributed and retailed in the province. It would be designated and clearly marked as a government ticket. It would be of high quality and meet detailed and precise government specifications. The distributor would have to arrange for the production of these tickets and would be allowed to stock and sell only such tickets.

Obviously, there must be strict conditions of security in the manufacturing plants and at the distributors' warehouses. I have dealt with the subject of security in the manufacturing plants, and this appears to be reasonably adequate. However, these security systems are those which were devised by the private operators, and not by the Licencing Board. The Board should be satisfied that the security arrangements are of a sufficiently high standard, and remain so. There are presently no laws or regulations at all respecting security requirements applicable to private operators in this field.

One of the themes of this report has been that the government should assume the responsibility of ensuring that the prices charged by the private sector in the lottery field are maintained at reasonable levels, and this is no less so with respect to the lottery of break-open tickets. The manufacturers and the distributors have been earning, or have the capacity to earn, a high level of profit in the printing and wholesaling of break-open tickets. That has been due to the extreme popularity of this form of lottery, and the sound business acumen of the manufacturers and distributors who have seen the opportunities presented and have been able to take full advantage of them. So far the government has made no attempt to dictate price levels to either the manufacturers or the distributors. It is suggested that for the protection of the licencees, the government should attempt to exercise some control over ticket prices. One way of doing this would be to require the manufacturers and distributors to justify any further price increases to the Board, and to require Board approval of such increases. There is another method of achieving control, which will become apparent in the following discussion on licencing or outright government intervention in the distribution system.

It is important that the tickets be sold only by and through licencees. It is essential, therefore, that there be controls to ensure that the distributors of the tickets sell only to persons possessing valid licences to retail the tickets. Opportunities for unauthorized sales and conversion of tickets should be minimized. There is some evidence, which I have noted previously, that unauthorized distribution is in fact, occurring, although there is no evidence that it is a major problem. Nevertheless, precautions should be taken to keep the situation under tight control.

The present terms and conditions for the sale of break-open tickets do state that a distributor is authorized to sell only to a licencee. However, those terms and conditions apply only to the licencees and not to the distributors.

There is no law or regulation directly affecting the distributors, requiring them to sell only to licencees. No doubt there is some control, in that a person caught retailing tickets without a licence could be prosecuted under the provisions of the Criminal Code of Canada, but there is no direct control over the distributor.

There are a number of approaches which might be used, either in combination or alternatively, to improve the situation: the regulations could be broadened and tightened; a system of licencing manufacturers and distributors could be instituted; the Board could become the distributor.

Ticket quality, manufacturing and distribution security and cost, might be dealt with adequately through regulations, but it would be difficult to ensure the suitability, integrity and reliability of the manufacturers and the distributors, and to control unauthorized ticket sales in this manner.

Through licencing, the Board could require potential manufacturers and distributors wishing to carry on business in Manitoba, to provide information and proof that they possessed the qualities and the facilities desirable for those engaged in such a sensitive field.

Through licence conditions, the Board could spell out in detail the specifications required for the type and quality of ticket, quality control measures, plant and distribution security, requirements for audits and inspections, and the maximum prices at which the tickets may be sold.

The licencing of distributors might provide some limited control over the distribution of tickets to persons not authorized to sell them. If the law provided that only licenced persons could distribute the tickets, and if the licences were restricted to suitable persons who the Board could be confident would distribute only through lawful channels, with deterrent penalties to those who distributed without a licence, or in contravention of its terms, there might be less chance of unscrupulous distributors supplying tickets to unauthorized persons. On the other hand, it might be very difficult for the Board to limit the number of distributors, even through a licencing system, and therefore there could still be a large number of persons in a position to distribute tickets to whomever they pleased, with perhaps a minimal chance of detection. Board inspections and audits might provide some measure of control and deterrence, but unauthorized distributions would not be easy to detect.

There is one drawback to the licencing of manufacturers and distributors: the licencing power of the province extends only to those actually present in the province. In virtually all cases the businesses of extra-provincial manufacturers would likely be located outside of the province and there would be no way in which they could be touched by provincial licencing regulations. Extra-provincial distributors might be subject to some control if they established a presence, for example, an office and a distribution network in the province. However, if they did not, and so arranged their distribution system so as to legally remain outside the province (as by accepting orders from local Manitoba licencees, and leaving it to the latter to arrange for shipment into Manitoba), they would not likely be subject to any provincial licencing regulations.

The government could enact that the licencees should purchase only from local licenced distributors, tickets produced only by local licenced manufacturers. However, this would result in the market being restricted to Manitoba and the loss of possible opportunities to purchase good quality tickets, at attractive prices, from extra-provincial manufacturers, and/or distributors. This disadvantage might be partially overcome by a system whereby licencees were permitted to purchase only from licenced distributors an "official" government ticket manufactured to high and precise standards of quality and security, but with no provision for the licencing of manufacturers. In this way, all manufacturers, both local and extra-provincial, would be compelled to produce those tickets or lose the business. Such a system would leave it open for extra-provincial manufacturers to serve the local market, although the Licencing Board would not be able to regulate quality control and security in the extra-provincial manufacturing plants. Such controls could be imposed upon local manufacturers by regulation, but the

Board might think it unfair to control local firms without also imposing similiar controls upon extra-provincial manufacturers.

If a licencing system is introduced, the government may wish to restrict it to distribution only. It is noted that, in North Dakota and Alberta, where a type of licencing system is in effect, only the distributors and not the manufacturers are licenced.

As an alternative to licencing, the Board could become the sole distributor of break-open tickets in the Province of Manitoba. The model to be followed here would be the system in place in the State of Michigan, U.S.A. where the licenced distributors purchase the tickets from the government agency at a set price for sale at a set price, and where the government itself distributes the tickets. This closely parallels the system used to distribute government sponsored lottery tickets throughout the Province of Manitoba.

Under such a system, the Board would design a break-open ticket (or series of break-open tickets) of a type and quality which it would wish to distribute in the province. This then, would become the official provincial ticket and would be marked and identified as such. The Board would then contract out the manufacture of the ticket to suitable printers, which could be within or outside of the province. The contracts would be let only to manufacturers which could satisfy the Board of their suitability in terms of integrity, reliability, experience, skill and manufacturing facilities. Such essential matters as ticket quality, quality control, security and price, could be stipulated and controlled by and in the contract itself. Then, supplied with the tickets by the manufacturer, the Board would undertake to distribute them to licenced persons in the province.

Such a system would have all of the advantages of licencing and more.

Manufacturers could be fully controlled through the contract. Moreover, the Board would have the flexibility of being able to deal with manufacturers both inside and outside of the province. True, it would probably be preferable to let the contracts to the Manitoba manufacturers for a number of reasons. They have the investment and the experience, are doing a good job, and could be more conveniently inspected and audited. But in the unlikely event they should fall below standard, or should more attractive tickets in terms of quality and price become available elsewhere, the Board could take advantage of this.

It would not be necessary to licence distributors, as there would be one only - the Board.

It would be much easier and less costly to control security and ticket prices. With a number of distributors in business, a system of checks, inspections and audits would be necessary to ensure that they were complying with regulations in this regard. This would not be necessary if there were only the one government distributor.

The Board, as distributor, would presumably be a non-profit organization and therefore, would be in a position to mark up the price of the tickets over the manufacturer's price only to the extent necessary to cover costs. This should result in savings equal to the profits which would otherwise have been realized by private distributors and these savings could be passed on to the licencees. (Assuming equal or comparable costs)

Finally, there would be an even greater chance of controlling the sale of tickets to unlicenced persons as there would only be the one entity authorized to distribute the tickets. With only the one distributor, which could be completely relied upon to deliver only to authorized persons, the opportunities for unlicenced persons to receive tickets would be very much less. Since the only tickets authorized to be distributed to licencees in the province would be the official government tickets, any attempt to make or distribute such tickets without authority from the government, would probably breach the laws relating to the manufacture and distribution of false documents embraced in the Criminal Code of Canada.

With the present situation, in which there are a number of individuals and firms engaged in the business of distributing break-open tickets, there are other considerations which should be assessed.

The distribution of the tickets is apparently already being efficiently handled by the present private operators. The government would be put to trouble and some cost to establish its own distribution network. However, it may be that the present government distributor of lottery tickets, Western Lottery Manitoba Distributor Inc., could be utilized to distribute the break-open tickets.

Through their work and enterprise, the current private operators have established a reasonable system of distribution, and their revenues could be significantly affected by government intervention.

If the government were to become the sole distributor of tickets, to the exclusion of the existing private operators, this could be regarded as an expropriation of at least part of their business and good will, and could involve the government in paying compensation to them. A precedent for this may be found in the case of Manitoba Fisheries Limited v. Her Majesty the Queen (1979) 1 S.C.R. 101, a decision of the Supreme Court of Canada. There, the Freshwater Fish Marketing Corporation was granted a commercial monopoly in the export of fish from Manitoba and other participating provinces to the exclusion of private companies which had previously been involved in the same business, thereby depriving the latter of that business. The court held that this was tantamount to the taking of property by the government for which compensation must be paid in the absence of any express statutory declaration that such compensation should not be paid. The legislature could declare that no compensation would be payable,but might think it unfair to do so.

An approach which might alleviate these concerns would be for the government to assume control of the tickets, and contract out both their printing and actual distribution. In this way the government could exert full control over the manufacturers and the manufacturing process, could limit and control the distributors in the field, and could control the wholesale selling price of the tickets. The present private operators (as well as others) could be given the chance to bid for the distribution contract. The disadvantages would be that the control of unauthorized distributions would not be as effective as it would with a government agency as the single distributor, and inspection and audits of the distributors would be required to ensure that security standards were being met and proper distribution was occurring.

BINGO

Introductory

Bingos have been licenced by the Lotteries Licencing Board since 1971.

There has been a steady increase in the number of bingos from 135 (1977) to 271 (1981). Part of the increase in 1981 was due to a commercial bingo, Buffalo Bingo, which commenced business in that year, and for which 39 licences were issued.

The gross receipts of bingos have also steadily increased from $10,217,000.00 (1977) to $16,028,000.00 (1981); and the net profits from $1,784,000.00 (1977) to $2,054,000.00 (1981).

The City of Winnipeg dominates the market. In 1981, the gross receipts for community and commercial bingo in that City were $12,922,000.00; while the receipts for rural Manitoba were $3,106,000.00. However, the number of licencees operating rural bingos has been steadily rising in relation to those operating in the City of Winnipeg, from 21 (compared to 85 in Winnipeg) in 1977 to 85 (compared to 169 in Winnipeg) in 1981. The gross receipts for rural bingos have increased from $425,000.00 in 1977 to $3,106,000.00 in 1981.

Schedule "G" appended, shows the operating results of bingos from 1977 to 1981.

Many of the bingos, including the commercial halls, have combined the sale of break-open tickets with the bingo games.

A review of the financial information filed by organizations raising funds through both bingos and break-open ticket sales indicated that all costs common to both activities were allocated primarily to the bingo operations. Common costs would include rent, advertising and management fees.

The earnings before overhead for each activity were approximately 20% of gross revenue. Gross revenue from break-open ticket sales generally exceeds that of bingos, for organizations involved in both activities. Therefore, it follows that the net profits derived from their break-open ticket operations would exceed that of their bingo operations by a similiar margin.

The sale of break-open tickets in the bingo halls has greatly assisted the profitability of these operations, and has become a traditional and important aspect of them in Manitoba.

Commercial Operators

In studying private operators in the lottery bingo, the Inquiry confined itself to those entrepeneurs actively and significantly engaged in the actual operation of bingo halls as distinct from those who are merely landlords.

Using this criterion, we identified two types of private operators in Manitoba: those licenced by the province under The Criminal Code of Canada, to conduct bingos for their own personal profit, with none of the proceeds going to charitable or religious purposes; and those who were not required to be licenced under the Code or any other legislative provision, but who offered to licenced charitable or religious associations conducting bingos, a wide range of services, including the rental of fully improved premises and bingo equipment, the provision of bingo supplies, food and beverage concessions, security, consulting on games format and conduct, and skilled callers and checkers to operate the games. These latter private operators have come to be known as "commercial operators", and their operations have come to be known as "commercial bingos". They differ from the private operators licenced under the Code in that, after payment of their fees and other charges, the revenue from the bingo is paid to the licencees to be used for charitable or religious purposes; and the licencees themselves are at least nominally in control of the bingos and actually participate in their operation.

"Commercial bingos" are a relatively new phenomenon in Manitoba and were first introduced in the City of Winnipeg in 1981. In response to this development, the Lotteries Licencing Board enacted rules, which were really part of the standard terms and conditions for a bingo licence and which purported to define a "commercial bingo operator" as one primarily engaged in the business of renting bingo premises to a licenced organization for the conducting of a bingo event, or series of bingo events therein. In the terms and conditions, the bingo premises of a commercial operator are referred to as a "commercial hall". This definition, if interpreted literally, might be said to apply to virtually any private landlord renting premises to a licencee to conduct a bingo, irrespective of whether the hall is specially designed and equipped for bingo, and of whether the landlord provides additional supplies and services, including assisting in the actual operation of the bingo games themselves. However, the text of the specific terms and conditions relating to commercial bingo, make it clear that they are intended to refer to primarily the private operators who are more than just landlords, and who provide many of the services needed to conduct the bingo games. It should be made clear - as perhaps it was not in the preliminary report - that these terms and conditions are not regulations passed by Order in Council under the Lotteries and Gaming Act having the force of law and intended to directly regulate commercial operators; rather they are merely conditions of the licences granted to charitable organizations, intended to regulate the conduct of those licencees in relation to commercial operators.

Throughout this report, to differentiate the commercial bingo operators from non-commercial operators, I will refer to the latter as "community bingos". These are not defined in the Act, the regulations, or the terms and conditions of the licences but, by "community bingos", I mean bingos operated by licenced organizations which own or have general access to premises for the conduct of bingo games and which, therefore, are not compelled to rent halls. The commercial halls are used by licenced organizations which neither own nor have general access to premises, and must, therefore, rent space in the commercial halls, or elsewhere.

Presently, there are only two commercial operators (as contemplated in the terms and conditions) in the Province of Manitoba, and they are Bingo Enterprises Ltd. (Buffalo), and Vic & Joe Enterprises Ltd. (Bison), carrying on business in the City of Winnipeg. There are two other private bingo operators in the province, one at Winnipeg Beach and one at Grand Marais, but they are not commercial operators within the meaning of the regulations. They are private operators who hold licences pursuant to Section 190 (1) (e) of the Criminal Code of Canada, issued by the province, to conduct and manage bingos at public places of amusement, where the amount or value of each prize awarded does not exceed $100.00, and the money or other valuable consideration paid to secure a chance to win, does not exceed fifty cents. These operators do not rent their premises to licencees, but rather operate the businesses themselves, for their own personal profit, which is permissible under the Code.

Counsel for Bingo Enterprises Ltd. has taken exception to the use of the terms "commercial halls", and "private operators", as properly describing the status of Buffalo Bingo and Bison Bingo. He submitted that they cannot be "private operations" and that they do not operate "commercial bingo halls". He submitted that, in selling bingo supplies, Bingo Enterprises Ltd. is no different in law to any other supplier, such as the Hudson's Bay or Eaton's, or other stores which sell bingo games to anyone wanting to buy them; that in renting its premises, it is no different than the Union Centre, the Convention Centre, the former Hebrew Sick Benefit Hall on Selkirk Avenue, and numerous other hall owners or lessors in the City of Winnipeg, who rent their premises to people who have licences to run bingo games; and that in selling its expertise, it is no different than any other person who happens to be hired by one of these organizations to help it run its bingo game. These points, taken separately, are all true. However, where Buffalo Bingo and Bison Bingo do differ from otherbingo halls is that the former offer all of these services - and more - in combination, whereas the latter do not, and it is this distinction which, in my view, is sufficient to support the proper description of Buffalo Bingo and Bison Bingo as "commercial halls" or "commercial bingos". As far as I am aware, there is no other landlord in the province which comes close to offering the range of services provided by these halls.

There is another type of organization which has just appeared on the scene in Manitoba in the City of Winnipeg, which is based on the notion of one or more charities or religious organizations forming an association for the purpose of operating a bingo hall. At the time of this report only one such organization had actually obtained a licence and commenced operation, and this was the Keystone Bingo Centre, which rents premises, a former Safeway store at 1015 McPhillips Street in Winnipeg, for use as a bingo hall. However, there have been signs that other individual charitable and religious associations are planning to combine and start similiar operations. These combinations of licencees are not "private" or "commercial" operators; it is doubtful whether their operations can be described as "commercial halls". Therefore, they did not, as such, come within the terms of reference of the Inquiry. There may be commercial elements in them, and it might be useful to examine this question. Unfortunately, the advent of Keystone Bingo Centre is so recent that it has not yet had time to establish a clear record and so it was not studied by the Inquiry.

There is evidence that other persons and organizations are interested in establishing commercial bingo halls in the City of Winnipeg, and elsewhere in Manitoba. I have been informed by officials of the Licencing Board that they have received enquiries from persons who are obviously interested in at least exploring the viability of establishing commercial bingo halls.

The commercial halls, Buffalo Bingo and Bison Bingo, operate in the City of Winnipeg. Their principals are Victor Vaseleniuk and Joseph Marois. Mr. Vaseleniuk is experienced in the operation of commercial halls elsewhere in Canada.

There are three corporations involved in the running of these halls; Bingo Enterprises Ltd., which operates Buffalo Bingo, Vic & Joe Enterprises Ltd., which operates Bison Bingo, and Buffalo Ventures Ltd., which sells bingo supplies (purchased from Bazaar Novelty Company Limited in Toronto) and rents equipment and furnishings to the other two companies. Mr. Vaseleniuk and Mr. Marois are shareholders in these companies.

Bingo Enterprises Ltd., carrying on as Buffalo Bingo, leased premises at 427 - 455 McPhillips Street in

Winnipeg, and has rented them out as a commercial bingo hall to licenced charities since June, 1981. Vic & Joe's Enterprises Ltd. leased premises at 970 Nairn Avenue, for the same purpose, and has been renting them out to licenced charities since in or about May, 1982.

The two operating companies improved the respective premises and installed furnishings and bingo equipment in them. The total cost of the fixed assets (leasehold improvements) is $308,000.00 (Bingo Enterprises - $156,000.00; Vic & Joe Enterprises Ltd. - $152,000.00). In addition, the companies own electrical equipment, furnishings, office equipment, canteen equipment etc. which cost $141,000.00.

The services provided by the halls to the licencees include the use of the hall itself, professional callers and checkers, arranging of advertising, advice on the games format and prizes, supplying of paper bingo "cards" and break-open tickets, security guards and a canteen. As well, the halls arrange for the collection and the administration of an accumulated fund to be used for the payment of large jackpot prizes.

Licenced charities wishing to rent from these halls must make their own arrangements with the operators, and the latter decide what licencees the halls will be rented to and how frequently. The licencees require no particular expertise in the running of bingo games, but rely upon the advice and assistance of the commercial operators. The licencees are responsible for all purchases of supplies and tickets and the sale thereof, payments of prizes and accounting.

The bingo players are not charged any admission fee, but buy paper bingo cards from the licencees. Once used, these games are discarded. The halls purchase the games from Bazaar Novelty Co. Ltd. of Toronto, and sell them to the licencees who, in turn, sell them to the patrons.

The halls advertise daily in the newspapers and operate seven nights a week.

The City of Winnipeg Police seized all of the accounting records of Buffalo Bingo during an investigation into the question of whether Buffalo was in breach of the gaming provisions of the Criminal Code of Canada. We, in turn, subpoenaed these records from the police. Our accountants examined the records and found them to be in a state in which a financial statement could not immediately be taken off. Messrs. Vaseleniuk and Marois engaged professional accountants who were able to substantially reconstruct the financial operation of Buffalo, although this task occupied several months. Ultimately, our accountants were able to produce a consolidated financial statement for the three related companies, based on information received from the latter's accountants.

During the fiscal period in question, virtually all of the revenue came from Buffalo Bingo as Bison Bingo had barely commenced operations. In summary form, the consolidated results of operations are as follows:

	(nearest thousand)	
Revenues	$725,000	
Expenses (no executive salaries paid)	530,000	
Income before the following:	195,000	
Allocation of Depreciation to Buffalo Bingo	31,000	
Income from Buffalo Bingo operation		164,000
Less:		
Lease payments on Bison Bingo	51,000	
Allocation of Depreciation to Bison Bingo	23,000	
Net Loss from other investments	4,000	78,000
Consolidated Income before taxes and executive salaries		$86,000

The companies had rather large expense items for professional fees ($25,817.00) and travel expenses ($18,945.00). Their accountants explained that their clients were of the opinion that the expenses for legal fees were both unusual and extraordinary, and felt that they were unnecessarily imposed on them, presumably because of the charges laid under the Code and the litigation involving the refusal of the Licencing Board to grant licences for Bison Bingo. Their accountants said that their clients were "not optimistic" as to "any future amelioration" of the conditions which gave rise to the fees. Should this pessimism prove to be unfounded, funds which might otherwise have been used for legal fees and expenses will be added to the profits enjoyed by the companies. Their accountants said that the travelling expenses were expected to recur because Mr. Vaseleniuk, who lives in Windsor, Ontario, and meets regularly with Mr. Marois for business meetings in Winnipeg, must travel to those meetings; because, to streamline their bookkeeping and rental operations, the companies have engaged a management consulting firm in Dartmouth, Nova Scotia, whose representatives must travel from there to Winnipeg regularly; and because, occasionally, trips are made for purposes of investigating the opening of operations in other locales, attending conventions, etc.

Buffalo Bingo has been able to generate its revenue mainly through hall rentals ($339,535.00) and the sale of paper bingo games ($300,689.00), with smaller revenues from security, advertising and concessions. The bingo supplies were purchased for $154,581.00 and so there was an apparent 100% mark-up on the cost.

At present, the financial statements respecting Bison Bingo are not available.

Initially, Buffalo based their rents on a sliding scale, according to attendance. Then, Buffalo began to charge rents of approximately $1800.00 per night, but recently these rents appear to have been reduced to $1,000.00 per night for Monday to Thursday inclusive, and $1300.00 per night for Friday to Sunday inclusive (with Bison charging $1100.00 and $1400.00 for the same periods). This change in the method of charging followed a regulation enacted by the Licencing Board, which required an organization licenced to conduct a bingo event at a commercial hall, to enter into a fixed amount rental agreement with the commercial operator. Since the regulation was enacted, the commercial bingos have been charging a fixed rental fee, but in order to ensure that no individual licencee will lose because of poor attendance, they have been rebating part of the fee in the form of a "charitable donation". It would appear that the amount of the rebate is roughly based on the revenue (and indirectly, the attendance) generated on any given night. Accordingly, while strictly speaking complying with the regulation, the licencees have, in effect, been circumventing it.

As well, the rental fees reflect a contribution to a fund for jackpot prizes. The commercial halls have been offering such prizes up to $10,000.00. The jackpot is not won every night, but to be able to offer it, the licencee must either have the amount guaranteed, or risk losing it altogether, and probably ending up with a substantial loss.

To ensure against this all of the licencees have been co-operating in setting aside sums of money to accumulate the jackpot. The Licencing Board did not approve of this practice, and enacted a regulation requiring each licencee to accumulate its own jackpot, separate and apart from other licencees. The commercial bingos and the licencees, nevertheless, continued the arrangement, whereby the halls held back from the rental payments and put into a separate fund, sums of money which accumulated and eventually were used to pay the jackpot. These sums really formed part of the rental charges. Latterly, however, in conjunction with the reduced rental fees, provision is made for each licencee to contribute an additional sum of $200.00 above the rental fee, to be held in trust for the accumulated jackpot fund.

The regulations provide that the licencees are to arrange their own advertising, but apparently they have not been doing so. The commercial halls have been arranging the advertising.

Bingo Enterprises Ltd., Victor Vaseleniuk and Joseph Marios have been charged with the offence, under the Criminal Code of Canada, of unlawfully keeping a common gaming house at 427 McPhillips Street in Winnipeg, Manitoba, between June 15, 1981 and March 16, 1982. (Buffalo

Bingo). This charge was dismissed on the ground that the information (the original document commencing the proceedings) was deficient. This may be appealed.

The prosecution alleges that the accused have exercised almost total control over bingo games and the selling of Nevada lottery tickets on their premises.

The key to the case is operation and control: who is actually operating and controlling the bingo games - Buffalo Bingo, or the charitable organizations?

The law is clear that the mere rental of premises for the purpose of carrying on gaming activities does not constitute the offence of keeping a common gaming house and the prosecution will have to prove that Buffalo went beyond this to the point where it was actually a keeper.

Licencees

In 1981, 30 organizations held bingos at Buffalo Bingo. Of these, 24 were sports groups, many of which were affiliated with the Manitoba Sports Federation. Other groups, for example, the Treble Teens, the Kinder Korner Day Care Centre, the Tyndall Park Community Centre, University of Manitoba School of Nursing Grad Committee, the Relief Fund for Poland, the Health Sciences Centre School of Nursing, the St. Mary's National Catholic Church, the Manitoba Chapter of Ladies for Life, the Ukrainian Cultural and Educational Centre, and the Winnipeg Indian Days Committee, have held bingos at Buffalo in 1981 or 1982. However, the majority of the groups using Buffalo in 1981 were sports groups.

Generally, the sports groups have been using their earnings from Buffalo for such purposes as development programs, instruction, coaching, travel costs, rental of facilities, training of coaches and judges, uniform supplies, tournament fees and expenses, equipment etc. Other non-sports groups have been using the proceeds for such purposes as yearbook and graduation (the University of Manitoba School of Nursing), chiropractic education and research (Manitoba Ladies for Life(Chiropractic Auxiliary)), athletic awards to student athletes (Bison Alumni and Friends), directors and travelling costs for a teenage choir (The Treble Teens Incorporated). The Manitoba Wheelchair Sports & Recreation

Association Incorporated has been using the funds for the purchase of specialized sports chairs and equipment for handicapped persons; the Manitoba High Schools Athletic Association has employed the funds to organize provincial high school athletic championships; and the one church group represented, the St. Mary's Parish Polish National Catholic Church, has been using the monies for payment of taxes and improvements to the church building.

Because so many of the organizations using Buffalo Bingo are members of the Manitoba Sports Federation, it is necessary to examine briefly the structure and purpose of that Federation. It consists of approximately 68 sports groups and has premises - an administrative centre - at 1700 Ellice Avenue in the City of Winnipeg. It carries on promotion and leadership activities on behalf of its members and provides them with an administrative centre, including office space, office management, secretarial and clerical help, maintenance of premises and print shop. The members are obliged to reimburse the Federation for part of the costs of the services.

The Manitoba Sports Federation is one of four shareholders of Western Lottery - Manitoba Distributor Incorporated, the distributor in Manitoba of government sponsored lottery tickets, such as the Western Express, Provincial, etc., and receives approximately one million dollars annually from this source. The members of the Federation, of course, are the indirect beneficiaries of these funds; as well, many of them receive direct grants from the provincial government.

Many members of the Manitoba Sports Federation, have found that their revenue, both through W.L.M.D. and the provincial government, is not sufficient to meet their needs, as they perceive them, and they have felt it necessary to turn to other sources of funds. These have included such time honoured methods as door to door solicitation, raffles, bottle drives, candy sales, walk-a-thons, swim-a-thons, bike-a-thons, etc., "socials" - all familiar to the public. These activities, while moderately successful, require relatively large investments of time and energy, and produce modest returns. With the advent of, and involvement of the sports and other groups in commercial bingo, they have been able to earn much larger sums of money for relatively less time and effort. At the public hearings, I received submissions from 21 organizations using the services of Buffalo Bingo, and they were virtually unanimous in their views that bingo was by far superior to, and more profitable than, the other traditional methods upon which they had been (and to an extent still are) relying. They were all most concerned that they not be deprived of this source of fund raising. That same concern was emphasized in a brief received from the Manitoba Sports Federation itself, which made the point that replacing the revenue from commercial bingo, if lost, "would be most difficult".

It is apparent that, in the expectation of a continued source of revenue from commercial bingo, some of the sports groups have now expanded their programs, and if that revenue source were taken away, these would be significantly impaired. For example, in its submission, the Manitoba Sports Federation said that it was not until some of their members had an opportunity to earn money through commercial bingo that they had sufficient funds to hire coaches, and that at least eight of the sports groups have benefitted in this way. Coaches have been hired on contracts of varying terms, and if the finances to employ them were abruptly removed, there could be difficulties.

There is no question that, on the whole, those groups operating bingos from Buffalo Bingo, have done very well financially. A sampling of some of the organizations indicates specific success stories: the Treble Teens, with seven bingos, made $15,565.00 profit; the Manitoba Track and Field Association, with eight bingos, made approximately $16,000.00 profit; the Manitoba Water Polo Association, with thirty-five bingos, has made approximately $52,000.00 profit; the Bison Alumni and Friends, with six bingos, have earned approximately $13,500.00; the St. Mary's Polish Catholic Church, with nine bingos, has made approximately $16,000.00 profit; the Canadian Amateur Diving Association (Manitoba Section), with twenty-five bingos, has earned approximately $28,000.00; the Manitoba Team Handball Federation, with eighteen bingos, has made $41,361.12; and the Canadian Amateur Swimming Association, with nineteen bingos, has earned $40,000.00. Those were the figures indicated at the hearing in May and June, 1982, and may now be even higher. The profits include the profits on break-opens. In the annual period ended May 31, 1982, licencees at Buffalo Bingo earned profits of approximately $621,700.00.

Unlike many other community bingos, which are fortunate enough to either own, or have ready access to, premises and facilities in which to operate the game, those using the commercial halls have no such amenities, and so, because of the facilities and services offered by the halls, they are now able to join with the other community organizations in utilizing bingo to raise funds. This new source of revenue has been a great boon to the sports and other groups operating from Buffalo Bingo, and - judging from the enthusiastic submissions received from them - one with which they are clearly delighted. Doubtless, many of these organizations realize that commercial bingo must be governed by reasonable regulations (in its brief, the Manitoba Sports Federation stated that it recognized the need for control and regulation) but they have not been - and are not - greatly worried about the profits enjoyed by the private operators in this field. They were much more concerned about the "bottom line" on their own financial statements - namely the amounts of monies they were profiting from bingo. They were most pleased with these profits.

Effect on Community Bingos

We have attempted to assess the effect which the commercial halls have had and are having upon the community bingos. Only two community bingos made representations to the Commission of Inquiry; the Dubuc Social Club and the Lennox Social Club, Christ the King Parish, St. Vital. However, earlier this year, prior to the Commission of Inquiry being appointed, the Manitoba Lotteries & Gaming Commission had invited submissions from parties interested in the issue of commercial bingo halls, and had received representations from several of the community bingos. Those representations in written form were passed on to me, and I have had the advantage of reading them. They included letters or briefs from St. Vladimir and Olga Cathedral, Canadian Polish Athletic Club, Crescent Social Club, St. Anthony Padua, St. Joseph Social Club, and St. Paul the Apostle Church. Also, the Inquiry sought out and interviewed the operators of twelve community bingos, as a representative sample, to obtain their opinions as to the effect which the commercial halls had and were having upon them. These included U.N.F. Hall, C.O.F. Hall, Crescent Social Club, Brewster Social Club, Norquay Bingo Club, Army & Navy Club, Le Club LaVerendrye, St. Peter's and Paul Ukrainian Church, Assiniboine Christian Centre, Shamrock Bingo Clubs, Lord Roberts Community Club, and St. Louis Centre.

Of all of these, three community bingos, Assiniboine

Christian Centre, St. Joseph Social Club and St. Paul the Apostle Church, gave no information or opinions as to the effect of the commercial halls upon them. Three others, St. Peter's and Paul Ukrainian Church, Lord Roberts Community Club and St. Louis Centre, felt that they were not affected at all by the commercial halls. Another nine, Shamrock Bingo Clubs, Crescent Social Club, Brewster Social Club, Norquay Bingo Club, Army & Navy Club, Dubuc Social Club, Lennox Social Club, St. Anthony Padua Bingo and Le Club LaVerendrye, all gave information indicating that they were slightly to moderately affected by the commercial halls. Finally, four, U.N.F. Hall, C.O.F. Hall, St. Vladimir and Olga Cathedral, and the Canadian Polish Athletic Club, gave the opinion that their operations were very seriously affected by the commercial halls.

Our accountants summarized the combined operating results of all Winnipeg bingos after eliminating those renting Buffalo Bingo's facilities as follows:

	1977	1978	1979	1980	1981
Gross revenues	$9,792,000	$10,546,000	$10,838,000	$10,601,000	$11,918,000
Prizes	6,490,000	7,297,000	7,617,000	7,585,000	8,778,000
Expenses	1,548,000	1,554,000	1,568,000	1,588,000	1,654,000
Licencing fee	65,000	73,000	76,000	114,000	176,000
Profit	$1,689,000	$ 1,622,000	$ 1,577,000	$ 1,314,000	$ 1,310,000
Average profit per charity	$ 19,900	$ 14,200	$ 13,000	$ 11,100	$ 9,400
Prizes as a % of gross revenues	66.3	69.2	70.3	71.5	73.7
Profit as a % of gross revenues	17.2	15.4	14.6	12.4	11.0
Number of organizations	85	114	121	118	139

Gross receipts increased by 8% in 1978; this corresponded with an additional 29 organizations holding bingos. Gross receipts and the number of organizations raising funds by holding bingos remained remarkably stable over the next 3 years. However, the percent of gross revenues paid out in prizes has gradually increased during this period indicating that the community bingos are probably competing with each other for the "bingo dollar" by offering higher prizes. Licensing fees increased in 1980 as midway through that year the fee increased from 1% to 2% of prizes. The effect of these events has been to erode the average profit recorded by each charity from its bingo activities from $19,900 in 1977 to $11,100 in 1980.

In 1981, gross receipts increased by a further 12% reflecting the influx of another 21 organizations holding bingos. Not reflected in these figures is an additional $1,004,000 of gross receipts realized by an additional 30 organizations renting Buffalo Bingo's facilities. Buffalo Bingo commenced operations in June, 1981. From an overall perspective, the organizations using its facilities appear to have attracted more dollars into the "bingo arena" rather than taking "bingo dollars" away from the existing community bingos.

Our accountants reviewed the financial results of 19 community bingos as reported quarterly for 1980, 1981 and the first half of 1982. For each of these, gross receipts, the percentage of gross receipts paid out in prizes and net profits were compared on a quarterly basis.

Six community bingos showed a decline in gross revenue since Buffalo Bingo commenced from which it was inferred that attendance at their bingos had declined. Four community bingos showed an increase in their gross receipts and the other 9 seemed to maintain their gross receipts at a level similar to what they had been prior to the inception of Buffalo Bingo.

Eight of the 19 community bingos reviewed operated in the vicinity of Buffalo Bingo. Of these, 3 showed a decline in gross receipts since the inception of Buffalo Bingo while the other 5 maintained their gross receipts at a level similar to what they had been previously. From this, it does not appear that Buffalo Bingo is having a significantly greater impact on nearby bingos.

Most bingo operations fix their prize structure prior to their knowing what attendance will be on a given night. As a result, such bingo operations will be paying out a similar amount in prizes each time a bingo is held. If attendance falls and gross revenues decrease, then prize money as a percent of gross revenue will increase and their net profits will decrease. All 6 community bingos that had a decrease in gross revenues had an increase in the prize payout percentage and a decrease in net profits. If these organizations allowed their prizes to fluctuate with attendance at the bingo, the net profits would not be so significantly affected by a decline in gross revenues.

None of the bingos mentioned appear to have changed their basic prize structure significantly as a result of Buffalo Bingo. A few of the larger community bingos instituted large jackpot prizes that are won infrequently.

Buffalo Bingo may be affecting the operations of the Winnipeg community bingos. This enquiry has been unable to isolate the effect of Buffalo Bingo from the other factors affecting the Winnipeg community bingos.

Perhaps one indication that the community bingos generally do not believe themselves to have been greatly affected by the commercial halls, is the fact that there were so few representations from the community halls to the Commission of Inquiry. Certainly, our researches did not reveal that the community bingos generally have been so badly affected by the commercial halls that their operations are no longer viable, or in danger of being eradicated. The great majority of the community bingos which did complain, merely cited reductions in their net profits, which, at most, had the effect of impairing, rather than destroying their operations. A very few, in the vicinity of Buffalo Bingo, may be in serious difficulty but this cannot be certainly attributed to that commercial hall.

Because this Inquiry relates to private operators, naturally, I have addressed the problems which have been created - or might be created - by the introduction of commercial bingo halls. However, the Board should not lose sight of the fact that the introduction of any new large community bingos can, and probably will, have exactly the same effect as the advent of new commercial halls. This would certainly be true of such organizations as Keystone Bingo Centre. (Very recently, and since the issuing of the preliminary report, I received a submission from the Ukrainian National Federation Social Club Rusalka, complaining of the severe effect on their bingo operation, of the very large bingos, and making no distinction between Buffalo, Bison and Keystone.) Moreover, while bingos such as Keystone do qualify as community, as distinct from commercial, halls, nevertheless, there may well be a commercial element in them, in that they may be served by private entrepeneurs, supplying some of the same services as the operators of commercial halls, such as Buffalo Bingo and Bison Bingo.

Other Jurisdictions

We sought information from other jurisdictions regarding their experience with and policy towards commercial bingo halls.

The Province of British Columbia does not permit commercial bingo halls, and, to the knowledge of their Director of Lotteries, the Government of British Columbia has no intention of permitting such activity in the province in the foreseeable future.

The situation is the same in Alberta; a private individual owning a building could rent it out for bingo purposes to a charity, provided that the bingo was completely controlled by the charity; the rent would have to be reasonable, and comparable with any other hall rental of similiar quality and size.

We were informed by licencing officials in Saskatchewan that a commercial bingo hall has just been established in the City of Regina. Licencees rent the hall and equipment from the owner, and purchase supplies from him. We were advised that the Saskatchewan Government will be monitoring the operation very closely and they could make no assessment of it as yet.

Ontario has had considerable experience with commercial bingo halls. In that province, there are presently 70 to 75 such halls, and they are run in much the same way as the commercial halls in Winnipeg. Bingo is played seven nights a week under licences issued to different charitable organizations; the landlords charge rent to the licencees and also sell bingo cards to them. Ontario has been experiencing considerable growth in the number of the halls and the magnitude of their operations. Ontario officials state that this has resulted in considerable pressure being applied to smaller bingos operated by charitable groups in their own buildings, and in most cases these groups have lobbied strenuously against the establishment of commercial bingo halls in their areas, thereby creating intense local political controversy. This has been somewhat alleviated by landlords absorbing smaller operations within their own premises. Ontario, too, has been concerned about the involvement of private operators in the conduct and management of charitable bingo lotteries, including the cost of hall rentals and bingo cards charged by the operators. They are presently engaged in a review of the entire field of bingo lottery licencing, but, in the meanwhile, have instituted a number of procedures to ensure that the licencees actually manage and conduct the bingo operation and that costs are kept to reasonable and necessary levels. These include:

1) Limits on administrative costs (15% of gross receipts, minimum charitable profit levels of 20% of gross);

2) Directives setting out the management and conduct responsibilities of licenced charities. (These include making the licencee solely responsible for supervision of the event, design of game schedule, allocation of prize monies, and determination of card prices, sale of bingo cards, actually calling the bingo, actually checking the validation of all called bingos, actually designing and placing all bingo advertisements, keeping of all necessary records, and handling of all financial matters);

3) The establishment of charitable committees in each hall, comprised of representatives of each licencee. Ontario officials say that these committees have greatly enhanced the ability of organizations to control important

aspects of the overall bingo operation, such as the game schedules, prizes, advertising costs, landlord involvement, etc.;

4) Intensive pre-examination of applications for new bingo operations. Licences are not issued unless the officials are confident that landlord/tenant agreements are proper, costs are reasonable, and that charitable groups will be the prime beneficiaries of the operation.

Despite these measures, the Ontario officials say that they have not been entirely successful in controlling the situation and that new approaches are being developed.

Quebec is in the process of conducting what would appear to be a very long and thorough review of all lottery activities in that province, and naturally, felt it inappropriate to disclose to us any information discovered in this review, pending its completion.

In Nova Scotia, there are presently three commercial halls; two are in Halifax, and one is in Greenwood. One commercial hall in Halifax has been operating on behalf of the Isaac Walton Killam Hospital.

In Nova Scotia there are ten private bingo hall operators licenced by the government pursuant to the special provisions of the Criminal Code related to the licencing of such operators where prizes are limited to $100.00 per game. Because of the limitations imposed on them, these private operators are not presenting any problems.

The Nova Scotia Lottery Commission has set down a number of regulations governing the operation of commercial bingo halls. The commercial operator is not to share in any profits realized by the licencee and is not permitted to receive any consulting fees; he is not permitted to sell any cards, tickets or other items which might realize him a profit, although he is permitted to operate a canteen, and retain the proceeds from this; a standard rental fee is to be set by the operator, which is to stay constant from one operator to the next.

It would appear that the Nova Scotia authorities feel that commercial hall operators should not be permitted to sell bingo supplies at all, as this would prevent potential abuses such as the sale of duplicate cards not accounted for, and unduly high mark-ups.

Although the Nova Scotia regulations provide for the setting of a standard rental fee for the hall, the amount of the fee does not appear to be regulated, with the philosophy being that the licencees are competent to negotiate a reasonable fee, and if they are content with it, the government will not interfere.

In New Brunswick, there are no commercial halls, although rental of premises is permitted. It is the feeling of New Brunswick officials that commercial halls would tend to create market dominance and freeze out the community groups. The authorities there have suggested that those licencees which do not have access to their own premises for lottery purposes, should band together and rent premises as a group.

The Manitoba Lotteries Commission sent to me a copy of the June, 1982 "Social Gaming Newsletter" (a private report to government and industry on social gaming), which detailed an investigation by the Illinois State Legislature, commissioned in October, 1981, into the conduct of non-profit bingo in the State, an enterprise which was said to currently gross $120,000,000.00 annually. The Newsletter, in part, stated:

> "One of the biggest problems which the Commission discovered is the fact that the evolution of bingo palaces in Illinois has created stiff competition due to the ability of larger halls to consistently award higher prizes and 'spurious' groups that those halls tend to attract. Both of these factors have hurt smaller legitimate charities' chances of raising money through bingo events."

The Commission found that groups of "questionable eligibility" were using the larger halls to raise money, that is, groups which do not donate to any charities, and exist solely to make money from bingo, and found that some groups were monopolizing the bingo dollar by conducting more games than they were legally authorized to operate.

The Commission had a number of recommendations designed to assist the smaller charities to effectively compete with the larger bingo palaces, including, reducing the $3400.00 maximum prize limit (a prize limit of no less than $1500.00 and no more than $2500.00 was recommended) and limiting the number of bingo sessions permitted at any one location, with a recommendation of four sessions per week.

Assessment of the Commercial Halls

Most of the community groups in the province wishing to operate bingos, either own or have general or continued access to premises which can be used for the holding of the bingo events. Latterly, however, there have been a number of community groups, many of which are sports organizations, which have no such premises and which have applied for and received licences to operate bingo events. Obviously, they need space in which to do so. There would be several options open to them: they could rent their own space for their sole and exclusive use; or they could band together with other community groups in the same position and rent space to be used and allotted amongst all of them as they might agree; or they could take advantage of the services offered by the commercial halls.

Anyone of these groups could have gone out and rented their own exclusive space. This, however, does not necessarily present an ideal solution. First, the groups have no expertise in the conducting of bingos, and advice and instruction in that regard is offered by the commercial halls; the space may not (and probably would not) have the comforts and amenities of the commercial halls and the larger community halls; some of the groups are not interested in often and regularly conducting bingo events, but may wish to do so only infrequently and occasionally, thus making it difficult to create goodwill and any kind of a reasonable following.

The groups, or some of them, could band together into an association, and, by pooling their financial and human resources, rent premises to be used by them jointly and regularly. An excellent example of this is the Keystone Bingo Centre, which rents premises - a previous Safeway Store - at 1015 McPhillips Street, Winnipeg (corner of Mountain Avenue and McPhillips Street), for use as a bingo hall. This type of association, in my view, presents a suitable vehicle for community groups which don't own or can't readily obtain premises, to conduct bingo events. However, it is a good solution only for those community groups which are interested in, or which are able to become part of, such an association. Associations such as this control their membership and may or may not admit new members. It is my understanding that Keystone will consider admitting new members, but it must look to the interests of its original members first, and its available dates will be limited.

The only real alternative then left for community groups, which don't own or can't get space, or which cannot become members of an association such as Keystone, is to avail themselves of the services of the commercial halls. There is, then, clearly, a place - in fact a need - for the commercial halls.

In my opinion, the commercial halls are providing a good service to the licencees which have been renting their premises. The premises and equipment are adequate; the halls are attracting and continuing to attract good patronage; and the licencees are all making good profits - and profits considerably in excess of what they could make in the types of money making ventures they had previously been pursuing.

Despite the fact that the commercial halls, Buffalo and Bison, are providing a service to their users, I do have some concerns about them.

There is, of course, the question of the alleged breach of the Criminal Code of Canada relating to the keeping of a gaming house. This charge may not as yet have been disposed of, and therefore, there is nothing which I can say about it. The progress of the case should be monitored, and if the charge is established, then the judgment of the court will have to be studied and the regulations reviewed to ensure, as far as possible, that operations of existing and future commercial halls conform to the requirements of the law.

It would appear that initially, Buffalo Bingo did not have its accounts in a state which would permit quick and easy analysis, and this has been described earlier. Latterly though, they have hired professional accountants, who have been assisting them in establishing their accounting system, and accordingly, the situation in this regard should be improved.

Buffalo Bingo has been earning very high profits which have previously been described. The total cost of leasehold improvements, equipment, and furnishings etc., owned by Buffalo and Bison Bingo, is approximately $450,000.00. If half of this is attributed to Buffalo Bingo, that would be approximately $225,000.00. In the fiscal year ended May 31, 1982, Buffalo Bingo was able to earn a profit before depreciation, of $195,000.00. Clearly, the operation has been very profitable, and if it continues to attract the same share of the market, the business should remain profitable. Buffalo was under no constraints from any source, including government, to limit their prices and fees; the licencees were quite willing to pay. But it is probably fair to say that it is the rare commercial venture which enjoys the same measure of success as Buffalo Bingo, and the question arises whether, in the context of a lottery scheme in which it is intended that the main beneficiaries should be the licencees and not private operators, some reasonable limits ought to be placed upon the profits of commercial halls.

Counsel for Bingo Enterprises Ltd. took exception to several aspects of the preliminary report, and made a further written submission to the Inquiry. He submitted that Bingo Enterprises Ltd. had been singled out by the Inquiry for the purpose of having its financial affairs made public, and that further, the total publication of their financial statements was "inappropriate". He also submitted that the conclusions drawn from the statements did not support the conclusions of the Inquiry in certain respects.

The Inquiry centred around Bingo Enterprises Ltd. and its related companies because, in my view, they were the only true commercial halls in the province (with the exception of those operating in Winnipeg Beach and Grand Marais under the special provisions of the Criminal Code of Canada) and as such, were of particular interest to the Inquiry. The financial reports were published in full because of the public nature of the Inquiry.

Counsel submitted that profit was stated to be $195,000.00 before depreciation, although there was "demonstrable depreciation which is a real and accounting expense of over $100,000.00, leaving profit of roughly $90,000.00". There is no disagreement that depreciation is a real expense, and this must be considered in assessing the profitability of the operation. That expense was duly noted earlier in this report and in the preliminary report. However, the profit of $195,000.00 related strictly to Buffalo Bingo (as the profit picture of Bison Bingo was, and is not known), and the depreciation attributable to Buffalo was estimated at $31,000.00 - not $100,000.00, leaving a profit after depreciation, of $164,000.00 - not "roughly $90,000.00".

Counsel submitted that the Inquiry had not taken into account that neither Joe Marois nor Victor Vaseleniuk, "both of whom devote tremendous energies to the operation", drew "appropriate" salaries. It was stated that Mr. Marois devotes full time to the operation and "would easily be entitled to a salary of $60,000.00 a year", and that Mr. Vaseleniuk "on the basis of creating a vehicle which raises over half a million dollars a year for charitable organizations, is an invaluable resource person", to whom the government would pay at least $50,000.00 a year for "doing much less".

The Inquiry was initially advised on behalf of Bingo Enterprises Ltd. that the management salaries were $12,806.00, and that is the figure which appears in the financial statements. Subsequently, the Inquiry was advised that these salaries were not paid to the principals. It may be that management salaries can be justified, although perhaps they should not be on the order of $110,000.00, as suggested by counsel. That is a matter which the Board will have to consider in determining what fees and charges would be appropriate. Of course, the Board will have to assess all of the expenses to see whether or not they are justified, and may want to consider whether the rather large expense items shown for professional fees and travel expenses should be allowable expenses either in whole or in part.

It is not intended to suggest that the proprietors of commercial halls should not be adequately - even generously - compensated, and amongst other things that would surely include proper executive or management salaries. However, it may be that, because the commercial halls are part of a scheme intended to benefit charity, the total compensation package should be controlled and subject to limits which the Licencing Board deems to be reasonable.

Controls

A general problem to be addressed is in what way, if any, should the commercial halls be controlled and regulated? It is submitted that there are several areas in which there should be control.

It seems obvious that operators of commercial halls should be of good character and credit, and that only persons having these qualities should be permitted to enter the business.

The premises in which the halls are situate should be adequate in terms of size, construction, comfort and conveniences, and should be reasonably equipped. Operators should be permitted to rent only such premises.

There should be controls on the revenues, expenses and profits of the commercial halls, not for the purpose of preventing entrepeneurs from making a reasonable return on their investment, but simply for the purpose of ensuring that the main beneficiary of the lottery is not the private operator, but the licencee.

The main sources of revenue for the commercial halls would appear to be rents and the sale of bingo supplies. Lesser revenue is gained from such incidental services as the arranging of advertising and the operating of food and beverage concessions.

There is a preliminary question as to whether commercial bingo hall operators should be permitted to sell bingo supplies - noteably paper bingo cards to the licencees. Some jurisdictions, for example, Nova Scotia, in Canada, and North Dakota, in the United States, do not permit the commercial operators to handle these supplies at all. The main reason for this policy would appear to be that it is somewhat difficult to control mark-ups as regulations designed to do so could be circumvented by collusion between the operators and their own suppliers. On the other hand, it is extremely convenient for the operators to stock and store the bingo supplies, and for the licencees to be able to purchase these directly from the operator, without having to go to any outside source. On the balance, it is recommended that the operators be permitted to continue supplying the bingo paper and related items to the licencees. It would be the most convenient course and regulations can set reasonable limits on the mark-up from the operator to the licencees. The amounts presently being charged by the operators' own suppliers are roughly known, and any significant increase would be viewed with proper suspicion by the Board.

Alternatively, the government could distribute the bingo supplies and permit the halls to stock them.

In order to determine the reasonableness of the operators' proposed fees and charges, the Board would need to examine certain material: for example, with respect to existing halls, audited financial statements and a detailed proposed budget; and with respect to proposed new halls, a detailed proposed budget. On the basis of such material, and with the assistance of their own professional accountants, the Board would be in a position to determine appropriate mark-ups for the sale of bingo supplies and rental fees for the premises themselves. This material should probably be submitted at least bi-annually, so that the charges could be kept abreast of the operators' actual experience and changes in the economy.

In assessing the financial information and budget submitted by the operator of a commercial hall, the Board could carefully scrutinize the amount of the capital being invested in relation to the long term debt and could ensure that the proposed charges and fees would not have to be set at an unduly high level in order to satisfy the debt and interest charges; the Board would likely want to be sure that the projected revenue was realistic; (with existing halls, this forecast could be based on their previous experience, while, in the case of new halls, the experience of the existing halls could be utilized as a guide.); on the expense side the Board would want to be assured that the projected expenses were all necessary and reasonable, and would pay particular attention to any projected expenses of an extraordinary or unusual nature, to be sure that these were justified.

It is not an easy task to determine what would be a fair compensation to the operator of a commercial hall. It is submitted, however, that consistent approaches and guidelines to arrive at that compensation, should be established and should be applied to all operators of commercial halls. That would not necessarily mean that the amount of the rental fees and other prices allowed to be charged by the private operators would be the same in each and every case. Obviously, much would depend upon the quality of the premises, its equipment, furnishings and other amenities; its location; and its potential for attracting and maintaining a reasonable level of patronage.

It is submitted and proposed that a typical private operator should be allowed to charge prices which would give to him a reasonable return on his equity and which would permit him to repay, over a reasonable length of time, amounts borrowed for such necessary assets as premises, leasehold improvements, equipment and furnishings.

A point of reference might be the approach taken by the Manitoba Public Utilities Board with respect to Manitoba's four gas utilities which are private operations regulated by the government. The Board allows these utilities to earn a rate of return before tax on the common equity component of their net investment in plant, equipment and working capital, in the range of 13% to 15.25%. A different allowed rate of return is established for each gas utility, depending on factors pertinent to that utility.

Clearly, a commercial bingo hall would have to be treated differently than a gas utility because the risk attached to the operation of the former would be considerably greater. But there is no reason why the general approach - that of allowing an established rate of return on equity - could not be followed, with the rate of return probably being set at a higher figure. The Board would have to select an appropriate rate of return, and that would vary according to current interest rates and economic conditions. Competition would also be a factor, and its degree would affect the risk of the venture. In this regard, I should note that it will be proposed later in this report that the number of commercial halls should be limited if possible, and it may be that there will always be enough charities seeking to use them that their profitability will be relatively assured. That would be a factor which would probably tend to lower the rate of return established by the Board.

It is essential that the commercial halls maintain proper accounting systems, and internal controls, not only for the sake of their own efficiency, but also to enable them to provide the licencing authorities with the necessary financial information to set prices and rental fees.

If the existing commercial halls continue to operate, they may take some business away from the community bingos, but not to the extent that the latter generally will be overwhelmed. Since the Lotteries Licencing Board saw fit to grant licences to those charities using the commercial halls, it must be assumed that they all represent worthy causes, and that it is not unreasonable for the community bingos to give up at least a small portion of the market to the commercial halls.

The problem does arise though, as to what the result would be if additional commercial halls were introduced into Winnipeg. Would this result in the business of the community bingos generally being very seriously affected, or in certain of them being completely driven out of business? What would happen must be very largely a matter of speculation.

One jurisdiction in Canada where there is a large number of commercial halls, is Ontario. The experience there has been briefly described earlier in this report, and officials in that province do observe that the growth in commercial halls has resulted in considerable pressure being applied to the community bingos. These groups have felt the pressure, and have been lobbying strenuously against the establishment of commercial halls in their areas. The pressure has been somewhat alleviated by the landlords absorbing the smaller operations.

I have also referred earlier in this report to the situation in the State of Illinois, where, according to a report of their State investigation into bingo, the larger halls have hampered the ability of the smaller organizations to raise money.

Thus, there has been experience elsewhere which would suggest the possibility of additional commercial halls seriously detracting from the business of the existing community halls.

By their very nature, the commercial halls tend to have certain built-in advantages over the community bingos - or at least over the smaller community bingos. They operate daily, they advertise regularly and widely, they attract relatively large crowds, and they have the capability of generating high revenues and being, or becoming, large businesses. They are able to consistently offer higher prizes, and that, in itself, is an added attraction to them. To be sure, some of the larger community bingos are in much the same position, and they should have no difficulty in competing. However, the smaller community bingos are not in the same position, and might have considerable difficulty in competing with a larger number of commercial halls.

About all that can be concluded from the available experience and evidence is that it is not unreasonable to at least fear that a proliferation of commercial halls would swamp and destroy the operations of the smaller community bingos.

It is therefore recommended that the Licencing Board adopt a cautious approach towards the licencing of charities in new commercial halls, other than the existing halls, in order to avoid the danger of irreparably damaging the business of the smaller community halls.

To what extent the Board should go in granting licences for the use of the existing halls, and additional halls, is, and will be, very difficult to determine. Presumably, the available bingo market has limits, and at some point, will be saturated. What that limit is, and what that point is are difficult to judge. Probably, the Board will have to make a determination as to the total number of bingo licences it is prepared to issue annually both to community bingos and to the users of commercial halls. In doing so, the Board will have to be arbitrary, but it already takes this approach with respect to, for example, the issuing of casino licences, and there must be a line drawn somewhere.

The number of licences issued would, in part, reflect the demand for them. In 1981 there were 39 licences granted in Buffalo Bingo; in 1982, there were 82 to November 30th; in 1982 to November 30th there were 49 licences granted for Bison Bingo. Probably the number of applicants will increase as organizations become aware of the services offered by the commercial halls. Of course, some of the licencees have been using the premises on more than one occasion, but the halls are open nightly and there are approximately 720 occasions to be apportioned amongst all of the applicants for licences. This is a fair number of nights to work with, and the available nights could be equitably allotted, so that each licencee would have an opportunity to make a reasonable profit.

The Board should try to keep the number of commercial halls as low as possible and should not countenance the opening of any further such establishments until the number of applicants for licences in them reaches the point where additional accomodation is clearly necessary.

Should it happen that the existing commercial halls and any new additional such halls, take so much business away from certain of the adjacent smaller community halls that the latter are not able to survive, the Board should ensure that those community bingos so affected receive first consideration for licencing in the commercial establishments.

The potential demand for the use of commercial halls could be controlled by the Board adopting policies designed to promote the equitable sharing of the available dates in the present halls by as many licencees as is reasonably possible. The figures presented to the Inquiry at the public hearings, showed that certain organizations made much more frequent use of the commercial halls than others, and consequently made much greater profits. It may be that the organizations which made these profits badly needed them, but it may also be that they could be reasonably asked to give up some of their nights to other organizations which have not had the same opportunity to use the facilities. One way the Board could accomplish this would be to assume the function of deciding which licencees should have which dates - a decision now made wholly by the private operators. The Board could periodically call for applications from groups wishing licences to conduct bingos in commercial halls, assess the needs of those applicants, not only for their own purposes, but as related to the needs of all of the other applicants, and then allot to each a limited number of specific dates available at the commercial halls.

I should caution that the right of the Board to limit the licences to a particular hall or location, may be open to question. The Board attempted to prevent certain licencees from using Bison Bingo in 1982, but this was held to be beyond the power of the Board by the Court of Queen's Bench, which issued an injunction prohibiting the Board from refusing to grant licences on the basis of location. That decision is presently under appeal. It may be that if specific legislation or regulations were in place, allowing the Board to restrict the licencees to certain locations, the effect of the court decision could be overcome. A final opinion on this will have to await the outcome of the current litigation.

I have one further observation.

Since the issuing of the preliminary report, the

Inquiry received further representations which were to the effect that it is not just the commercial halls, but all bingo halls, which should be subject to strict controls and regulations. While the operations of the community bingos and, indeed, all lotteries which are not served by commercial interests, are outside of the terms of reference of the Inquiry, nevertheless, during the course of the Inquiry, it became apparent that there were no official standards or guidelines for the control of community bingos. Certainly, the community bingos should be subject to many of the same controls which I have suggested should be applicable to commercial halls. Of course, community bingos are, by definition, licenced and there is that initial control. However, conditions of the granting of, and in, the licence should be similiar to those applied to commercial operators.

Because the introduction of a major community bingo has the potential of affecting the operations of other bingo operations, in the same way as a major commercial bingo, the Board should be cautious in allowing new, large community bingos to commence operation.

Present Rules

The Board has attempted to exercise some control over commercial halls by regulation, through the terms and conditions attached to the licences granted to the users of the halls. These provide, amongst other things: that an organization licenced to conduct a bingo event at a commercial hall must enter into a fixed amount rental agreement with the commercial operator; that the rental fee shall be for rent only, and any additional expenses such as caller fees or supplies shall be listed separately; that the commercial operator must receive written authorization from the Board before any increase is allowed in rent; that a commercial operator is not to share in any profits raised by the licencee and is not to receive any consulting fees, but can provide bingo supplies at a "fair rate" and operate a concession.

Other regulations provide: that all aspects of a bingo event held at a commercial hall, shall be under the control and supervision of a licenced organization, which will collect all money and pay out all prizes; that all advertising must be placed by the licencee; that each licencee must accumulate its own jackpots; and that the game format is to be selected at the discretion of the licencee.

Another regulation provides that the commercial operator is responsible for ensuring that all equipment utilized for bingo is maintained in a good operating condition.

These regulations are not adequate. They do not give the fullest degree of control over rental fees and prices of supplies. The regulations do state that "a fixed amount rental agreement" must be entered into between the commercial hall and the licencee but do not provide for the Board to have any control over, or to approve the amount of, the rental agreement to ensure its reasonableness. Board approval is required before the rent can be raised, but apparently, no such approval is needed with respect to the fixing of the rent in the first instance. The regulations do state that the commercial operator can provide bingo supplies "at a fair rate", but do not purport to either define what is a "fair rate" or to give the Board any control over what the rate should be or its reasonableness. The regulations are silent as to who should be entitled to operate a commercial hall, the minimum standards such a hall should meet, and the maintenance of proper accounting records and systems by the hall operator.

Some regulations are not appropriate.

As mentioned previously, originally the commercial halls charged fees dependent upon the numbers of persons in attendance. This was the so called "sliding scale" fee structure. Its purpose was to ensure that licencees which were not fortunate enough to conduct bingos on a night or nights when the attendance was good, would pay a lesser

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rate and stand a better chance of making a reasonable profit, and that, on the other hand, licencees which were more fortunate and conducted bingos on a night or nights when the attendance was higher, would pay a higher fee but still make a reasonable profit. In this way, both the licencees and the private operators benefitted.

However, the Board took the view that "sliding scale" fees were some how not legitimate, and amounted to a form of "profit sharing" between the private operators and the licencees. (Another regulation does provide that a commercial operator is not to share in any profits raised by the licencee.) Therefore, the Board enacted a regulation requiring the private operators to charge a flat rental fee.

In my respectful opinion, the policy of the Board as reflected in the regulation allowing flat rental fees only, is based on too narrow a view of the concept of "profit sharing". The purpose of the "sliding scale" rental fees is not to permit a sharing of profits, but to enable the private operators to accomodate groups which might stand to lose due to the mischance of their having selected a night on which the attendance is particularly low; the aim of the "sliding scale" rentals is not so much to achieve a sharing of profits, but rather to ensure that the licencee will make a reasonable profit - surely a desirable object. It is true that, on the other side of the coin, the private operator stands to benefit more on nights when the attendance is particularly good, but on those nights the licencee will still make a reasonable profit, and it is only just that, if the operators are to take a lesser fee on a poor night, they should be able to make it up on a better night. Everybody benefits.

In any event, the regulation requiring a flat rental fee has been easily avoided. As previously described, the present practice is for the private operators to charge the licencees a flat rental fee, but, at their discretion, to encourage business and to accomodate licencees which have been assigned nights with poor attendance, they have been rebating part of the fee to the licencees and describing these on their books as "donations". This situation is a farce and is totally unsatisfactory in that it leaves it to the discretion of the private operators to determine whether, and to what extent, to rebate, and that is a matter, surely, which should be the subject of a prior agreement between the parties which can only be satisfactorily concluded on the basis of a type of "sliding scale" arrangement.

It is therefore recommended that the regulation requiring a flat rental fee only, be repealed.

Unlike many of the community bingos which have their own halls and facilities, many of the organizations using the commercial halls operate only infrequently and irregularly. Many of the community bingos, because of the nature and continuity of their operations, are able to set aside and accumulate sums of money from their revenues to arrive at a final or "jackpot" sum, which is ultimately offered as a special prize; because of the sporadic nature of their operation, many, if not all, of those using the commercial halls, are unable to make such an accumulation. The only way they have been able to do so has been in cooperation with one another and the commercial halls. This was accomplished by the users of Buffalo Bingo, each contributing to a jackpot fund that was used to pay off larger jackpots and to insure against any one licencee having the misfortune to be required to pay a large jackpot on the night assigned to it. The Licencing Board felt that this type of "floating jackpot", was not desirable and wished to put a stop to it. Therefore, the Board enacted a regulation, to which I have referred earlier, which provides that each licencee must accumulate its own jackpot separate and apart from other licencees. Many of the organizations using the commercial halls which made submissions to me, were most disturbed about this regulation. To them it meant, in effect, that for all practical purposes, the large jackpots could no longer be offered because of the risk that any one licencee might have to pay them, not only wiping out its profits, but causing a serious loss. To be sure, each one of the users could individually accumulate its own jackpot, and perhaps those licencees who have used Buffalo's premises more regularly and frequently than others, would be able to do so, but others, not in the same position, would find this difficult. I have earlier referred to the fact that arrangements had been made between the licencees using commercial halls and the operators thereof, to in effect, "bury" a contribution to the jackpot in the rental charge.

In my view, it is reasonable that licencees using commercial halls should be able to collectively accumulate a jackpot fund by each individually setting aside a certain sum of money for each night of operation and paying that sum into a general jackpot fund. Undoubtedly, such a jackpot is one of the principal attractions of these bingos, and must continue to be offered in order to maintain the clientele. The creation and maintenance of such a fund merely enables the users of commercial halls to do collectively what the community bingos are able to do individually. However, I do not believe that it is a good practice for these contributions to be made to, and administered by, the commercial halls. There should be nothing to prevent the licencees from selecting one of their own group, or a third party to receive, hold, and administer the funds; alternatively, that function could be assigned to the government.

The present regulations call for the advertising to be placed by the licencees. In fact, in the case of the commercial halls, the advertising has been placed by the private operators as an additional service to the licencees. I can see no reason why this should not be so. It is convenient for the licencees to have all advertisements placed through the commercial operators, and it may well be that, having regard to the volume of business which they can deliver to the media, the operators can arrange the advertising more economically than the licencees can individually.

It is therefore recommended that the regulation requiring advertising to be placed by the licencees be repealed.

Method of Control

The regulations could probably be tightened to provide better control over such matters as rentals and prices of supplies, but it would be rather difficult, through regulations, to ensure that only honest and reliable persons with adequate premises and accounting controls, are permitted to operate commercial halls. It is submitted that the most direct and simple way to achieve all these objectives would be through a system of licencing commercial operators. In that way, before getting a licence, a proposed commercial operator could be called upon to demonstrate to the Board that he or she was an appropriate person to run a commercial hall and that the hall itself was adequate. A condition of the granting of the licence would be that the proposed operator satisfy the Board that he has in place a proper accounting system and internal controls, and that he provide to the Board financial information and a budget so the Board can determine the rental fees and other prices to be charged. The terms and conditions of the licence itself would provide for the maintenance of a proper accounting system and internal controls; the actual amounts of the rental fees and other prices permitted to be charged by the operator; the right of the Board to inspect the premises, equipment and the accounts of the operator at any time; and the duty of the operator to provide periodic audited financial statements to the Board. The licence would be valid for a pre-determined but reasonable length of time, and then would have to be renewed. It is suggested that the licence could be valid for the period of two years, so that the operator would be spared the bother of having to re-apply for a licence annually, but would not be able to continue indefinitely.

Private Operators

(190 (1) (e) of Criminal Code)

As mentioned in the introduction to this report, a distinction must be made between "commercial bingo operators" defined under the Lotteries and Gaming Act as "those primarily engaged in the business of renting bingo premises to licencees", and commercial bingo operators who are "private operators", holding licences pursuant to section 190 (1) (e), of the Criminal Code of Canada. The latter may be issued licences by the province to operate bingos for their own profit, not for charity, where:

> "1) the amount or value of each prize awarded does not exceed $100.00, and
>
> 2) the money or other valuable consideration paid to secure a chance to win a prize does not exceed 50¢".

There are presently two "private operators" licenced pursuant to the Code, namely Henry Feder and Samuel Feder, running private bingos at Grand Marais, Manitoba, and Winnipeg Beach, Manitoba. Henry Feder operates Kingo Amusements at Grand Marais, and Samuel Feder operates Wako Amusements in two separate locations at Winnipeg Beach in the Lingo Building and the Wako Building. The Inquiry was given copies of reports of investigations conducted by the Licencing Board into the activities of these bingos.

The bingos have been licenced since 1972. The Wako

Building and the Lingo Building in Winnipeg Beach, are both located on Main Street (the boardwalk area) and are half a block apart. The Wako Building is the primary location, with a seating capacity of approximately 325 to 350 people. The Lingo Building serves as a supplementary facility when the Wako Building is full.

In 1981, Kingo Amusements at Grand Marias earned a net profit of $3,262.00; Wako Amusements (Wako Building) earned a net profit of $20,865.00; and Wako Amusements (Lingo Building) earned a net profit of $1,788.00.

According to the investigation reports, these bingos are well run and regarded. However, in May, 1982, the Licencing Board received a letter from the Winnipeg Beach Municipal Recreation Centre Inc., pointing out that in the Town of Winnipeg Beach there are many volunteer non-profit organizations which operate bingos for their own funding, and complaining of competition from the private bingos. The community bingos run six nights a week, but feel that their opportunity for profits is limited by the private bingo operations. Apparently, when the private bingos started, there were no charitable bingos in Winnipeg Beach. A local Councillor was quoted as expressing the view that the private bingos, which are located on what is left of the boardwalk, are definitely one of the main attractions for many locals and visitors. He said that, over the years, these bingos have contributed to the economy of the area, but that the united strength of the local charities should now be more than sufficient to take over and run the operations successfully.

The investigation showed that there was a sign in the window of the Wako Building, advertising cash prizes of $1500.00 for a full house in 52 numbers, $150.00 for a full house in 58 numbers, and a consolation of $75.00. Several local citizens confirmed that these prizes had been available for several years, and that it is their favorite bingo to play.

The investigation done by the Board indicates that these private operators are in breach of their licences in that, pursuant to the Code, they are limited to offering prizes not exceeding $100.00. If this is correct, then obviously, the Board must take steps to ensure that the operators comply with the terms of their licences. Assuming the accuracy of the information that these operators are offering prizes over the $100.00, if they are restricted to offering prizes not exceeding that amount, then it is probable that their operations will become less attractive, and that the community bingos will be more readily able to compete with them.

CASINOS

Introductory

During the last five years the casino business in Manitoba has greatly increased. In 1977, only two casinos were held in Winnipeg, and one was held in rural Manitoba. In 1981, 13 were held in Winnipeg, and 9 were held in rural Manitoba. Presently, the pattern is to hold at least one week long casino each month in the City of Winnipeg.

Excluding the casinos held by the Red River Exhibition and Festival Du Voyageur, the gross receipts from the Winnipeg casinos increased from $391,945.00 in 1978, to $2,356,594.00 in 1981; the gross receipts from the rural casinos increased from $15,071.00 in 1977 to $77,883.00 in 1981.

The aggregate profits from the Winnipeg casinos increased from $227,443.00 in 1978 to $1,412,112.00 in 1981; the profits from the rural casinos increased from $5,429.00 in 1977 to $46,937.00 in 1981.

The average profits per casino in Winnipeg increased from $75,814.00 in 1978 to $128,374.00 in 1981; and the average profits for the rural casinos varied and did not really increase.

Appended as Schedule "H" is a comparison of operating results of Manitoba casinos from 1977 to 1981 inclusive.

In 1982, the profits of the Winnipeg casinos, particularly those held in the Winnipeg Convention Centre, have been even more impressive. The Festival Du Voyageur earned a net profit of $262,204.00; the Red River Exhibition Association earned a net profit of $254,270.89; and the 8 held in the Convention Centre to and including September, averaged net profits of $175,000.00 with 4 making net profits exceeding $200,000.00.

Manitoba

In Manitoba, casino licences are issued to charitable organizations which are charged with the responsibility of operating the casino under the supervision of a volunteer general manager. However, the average volunteer has had no experience in the operation of casinos and lacks the detailed knowledge and expertise to adequately run a casino. Thus, the licencees must turn to professional help for assistance, and must use the services of professional casino management companies, professional accounting services and professional security services. The professional management companies, in turn, arrange for qualified and experienced persons to act as supervisiors, pit bosses and dealers at the casinos. These professional services are supplemented by volunteer help from members of, or recruited by, the licencees who act as ticket vendors, runners, cashiers, bankers and count room staff.

Other Jurisdictions

We sought and obtained information from other jurisdictions respecting their situations and policies relating to casinos.

In the Province of British Columbia, the Lotteries Branch of the government may issue up to three casino licences during a twelve month period, to a qualified applicant. The licence may be issued only to complement a social event, such as a dinner, dance, carnival, bazaar, or some similiar festive occasion, and then only for a maximum of three days. Because the emphasis is on the social event, and not the gaming, a casino seldom nets more than $1,000.00 maximum, the usual net being around $500.00 to $700.00. It can thus be seen that casinos in British Columbia are not nearly the big business that they are in Manitoba.

In Saskatchewan too, the situation is quite different than in Manitoba. There, casino licences are issued only to exhibitions and are not allowed to be issued to charitable or religious organizations. Accordingly, the casino business is not nearly as extensive as it is in this province.

In Ontario, casinos are not licenced.

In Nova Scotia, casinos are permitted on a limited basis. There are no private contractors or operators, with everything being handled on a volunteer basis by the licencees.

In New Brunswick, casinos are not permitted.

One Canadian province in which the casino business has become very big is the province of Alberta. The gaming industry there, as a whole, now grosses approximately $190,000,000.00 annually. Casinos are held frequently but can run for only two days each. We have been told that the net profits from every two day casino, run in either Edmonton or Calgary, are between $20,000.00 and $40,000.00. In Winnipeg the average net profit per day is $28,000.00. The Alberta authorities have developed extensive rules to control the operations of casinos in that province, and so it is reasonable to look there for guidance as to the type of system and regulations which might be put in place in this province.

In Alberta, eligible organizations are only allowed one public or one private casino each year. Only one public casino will be licenced in any city or town at any one time, except in Calgary and Edmonton, where two casinos may be held on Friday and Saturday.

No eligible organization will be refused a casino licence. All of the dates for the casinos are assigned by way of a public draw. All of the eligible organizations are entered automatically for date allocation for the subsequent two month period. That is in contradistinction to the system followed in Manitoba, in which the Licencing Board attempts to assess the relative merits of each eligible applicant and decides which should receive a casino licence. That, of course, involves the Board in making many difficult and perhaps invidious decisions, particularly when, as is the case, there are far more applicants than available licences. (The present policy for casinos states that there will be 90 days of casinos per year in Winnipeg, which can satisfy between 20 to 30 groups applying for licences. In 1981, 96 groups applied for casinos for 1982. The Board has been attempting to alleviate this situation somewhat by combining two or more licences for each event.)

As in Manitoba, the casinos are administered by a combination of volunteer and professional help. Before an organization may be licenced, it must first satisfy the Alberta Gaming Control Branch that a sufficient number of registered members would be willing to work as volunteers in positions identified as the Casino General Manager, Casino Banker, Casino Sales Clerks, Casino Cashiers, Casino Chip Runners, and Casino Account Room Staff. On the whole, this amounts to some 25 to 35 volunteers for each organization. Each of these persons must be approved by the Gaming Control Branch.

The professional help is provided by professional games managers, pit supervisors, pit bosses and dealers. As well, professional security persons are employed.

All games managers must pass tests administered by the Province of Alberta, and must be registered with the Attorney-General's Department; pit supervisors, pit bosses and dealers, must also be registered. There are 50 games managers and a total of 500 pit bosses, pit supervisors and dealers, all registered in Alberta. A list of all of these personnel goes out to each applicant with the casino applications themselves, and each applicant is advised to shop around for all of the required personnel.

Games managers are paid a salary of $500.00 for two days, pit supervisors are paid $10.00 per hour, pit bosses are paid $10.00 per hour and dealers are paid $6.50 per hour plus tips. All tips are divided equally amongst the pit dealers, roulette dealers and wheel of fortune dealers.

Security personnel must also be registered. A portion of these are off-duty police officers and their hourly rate is $26.00.

Casinos may be staged anywhere as long as security is appropriate. There are two main places within Edmonton, Alberta, which facilitate casinos and each of them charges $600.00 per day. The facilities include the casino itself, the accounting room, the bank room and rest rooms for the volunteers.

Casino equipment is supplied by five private independent equipment companies, all operating within Alberta, and the competition between them is keen. The equipment rental fee is $25.00 per unit per day, and a $1,000.00 fee is taken for equipment rental for a two day casino.

It has been government policy in Alberta to limit the use of funds for expenses by a charitable organization, and to apply a thorough auditing system, administered by the Gaming Control Branch. The Alberta authorities feel that this has kept the ratio of expenses to gross revenues at a very low level, and, in 1981, the licenced casinos had an operating expense of 8.9% of the total gross income. This represents 38% of net revenue before operating expenses, compared to 40% in Manitoba.

Casino Management Companies

The casino management companies in Manitoba are performing certain essential services.

They may be broken down into categories of consulting, preparation, staff assemblage, and management. These categories do not reflect the fact that the management companies perform the essential function of recruiting and training a pool of persons qualified to act as supervisors, pit bosses and dealers.

The consulting aspect represents a reasonable and indeed, necessary service. Most, if not all, of the licencees have not the slightest idea of how to go about organizing and operating a casino. They need advice and somebody must provide it.

The preparation aspect also represents a necessary service and includes such matters as recommendations with respect to the lay-out and size of the casino, personnel requirements and volunteer scheduling and training. Here again, most, if not all, of the licencees will have no knowledge in these areas and will require advice; as well, it is essential that the volunteer help be trained, and the average licencee is not equipped to do this.

The staffing aspect represents another necessary service. A large number of paid personnel such as supervisors, pit bosses and dealers will be needed for a casino. The average licencee does not know how many of each category will be required, or who will be available. Moreover, the licencee does not know which personnel would be the best qualified. The licencee needs advice on these matters. Furthermore, somebody must do the work of actually contacting the personnel, engaging their services, and organizing the shifts on which they are to work.

The management aspect is a necessary component. Clearly, some knowledgeable person must manage the day to day activities of the casino and be available to consult with and advise the volunteer casino general manager, who will probably not have the requisite expertise himself.

There are two principal casino management companies in Manitoba: The Community Casino Company, and Casino Management Services.

The Community Casino Company is controlled by Gerald Turenne and Don Blair of Winnipeg, who are very active in the company. Mr. Turenne was involved in the management of the casino for the Festival Du Voyageur (first granted a licence in 1977). He subsequently managed casinos for various non-profit organizations and finally, in 1979, with Mr. Blair, formed the Community Casino Company. In 1980 the company managed four casinos. In 1981, it managed 10, and to September in 1982 it managed 7.

Casino Management Services is operated by Mrs. Verna Shelley, with Mr. William Acheson. It manages both urban and rural casinos. Its operation differs from that of Community Casino Company in that Mrs. Shelley offers a banking and accounting consulting service as well as straight management services. Mrs. Shelley has been in the casino business for about fourteen years, the last seven years being in a supervisory capacity. Casino Management Services was formed in 1982, and, in 1983, Mr. William Acheson joined the firm as a partner. He provides the "floor services", and Mrs. Shelley the banking and accounting services.

A third management company, which exists solely to service rural casinos, is Canwest Casino Company. The company was formed approximately one year ago, and is run by two partners, Mr. Harold Swick and Mr. Richard Wagner. It is a completely separate entity from Community Casino Company, although it is connected with that company in that there is a contract between the two firms, whereby Canwest has agreed not to conduct casino activities within the City of Winnipeg for a term of five years.

Both Mr. Swick and Mr. Wagner work for Community Casino Company as games managers during the running of city casinos. Mr. Wagner has been in the casino field for some twelve years, and Mr. Swick for the past ten years. Mr. Swick, incidentally, is a 10% owner of the Club Casino Equipment Company.

Canwest Casino only operates during the summer months, that is June, July and August. Both Mr. Wagner and Mr. Swick hold fulltime jobs in other unrelated areas.

The games managers have never been required to demonstrate their competence to the Licencing Board through a system of testing, and need not be either registered with or licenced by the Board, which is a requirement in some other jurisdictions. Nevertheless, the operators of the management companies are apparently competent, and providing reasonable service to the licencees. They have all had experience in the operation of casinos, and they have been passing on their knowledge and experience to the various games personnel whom they have trained. Moreover, the casinos they have managed have been successful.

The Inquiry engaged the services of two employees of the Nevada State Gaming Commission, who were thought to be expert in the field, to inspect and advise upon the manner in which the Winnipeg casinos were run. They attended in Winnipeg, consulted with representatives of the Inquiry, and the Licencing Board, and inspected the operation of casinos run by the licencee, Festival Du Voyageur, which were managed by Community Casino Company. They expressed general satisfaction with the competence of the games managers at the casinos they inspected, and were favourably impressed with the apparent knowledge and expertise of the dealers. This latter fact reflects well upon the competence of the management companies, as it is they who train the dealers. The consultants were reasonably satisfied with the manner in which the casinos they inspected were managed, although they had suggestions for improvement. For example, they felt that the tables should be arranged more closely together, in a manner that would allow the pit bosses to be more effective, and they felt that the supervisors and gaming managers should be more attentive to ensure that the pit bosses were properly monitoring the dealers' actions. The Nevada consultants thought that these procedures would be improved if the casino management companies knew that their games personnel were being effectively scrutinized and monitored by the Board.

The terms and conditions for the conduct and operation of a casino issued by the Licencing Board and made part of the conditions of the licences granted by the Board, require the licencees to hire a games manager who must be qualified and experienced and responsible for the dealers, pit bosses, and pit supervisors. The terms and conditions require that all agreements for persons hired by the licencee, including the agreement for the hiring of a games manager, shall be in writing and forwarded to the Board for approval not less than seven days prior to commencing the casino, pursuant to these requirements, the casino management companies have been making proposals to the licencees for the operation of each casino, and the contracts between them and the licencees have been routinely submitted to the Board for approval. I am informed that the Board itself does not actually see these agreements, but they are scrutinized by Board employees who attempt to ensure that the contracts are fair and reasonable, and that the prices being charged are in line with the prices charged for previous casinos.

The two principal casino management companies have been keenly competitive with one another, but recently most of the Winnipeg casinos have been awarded to Community Casino Company.

This should not be any reflection upon the competence of Casino Management Services, which has successfully run casinos and obtained most satisfactory results for the licencees which it has serviced. One explanation for the fact that the one company is selected more often than the other, may be that prospective licencees like to choose on the basis of their inspection of the casinos currently in operation, so that the management company which is having a successful run has the opportunity to demonstrate its ability, while the other remains somewhat of an unknown quantity.

Casino Management Services expressed concern to the Inquiry about the fact that their proposals, which are guaranteed as to budget expenses, are routinely submitted to the Licencing Board, while the proposals of Community Casino Company, which are not guaranteed as to a budget expenses, are not submitted regularly to the Licencing Board, and, on occasion, have been higher in amount than those of Casino Management Services. The three Winnipeg casinos held in October, November and December of 1982, were cited as examples, and, in all of these, the expense budget of Casino Management Services was guaranteed, while that of Community Casino Company was not guaranteed.

The budgeted expenses of the two management companies are not the only factor involved in the selection process by the licencees. The licencees may feel, and are quite entitled to believe, that one management company would be better suited than the other for a specific casino. Perhaps they would be convinced that one company would be better able to produce higher gross receipts, and therefore a higher profit, irrespective of the proposed budgeted expenses. Nevertheless, in my opinion, the concern of Casino Management Services is well founded. The proposals of the management companies should be in writing and should be submitted to the Licencing Board, so that the Board can take steps to ensure that the licencees are fully cognizant of all of the facts, including possible savings in expenses, prior to actually awarding the contract.

The companies provided to us information as to their hours worked and their rates for the casinos.

In their brief to the Inquiry, the Community Casino Company stated that the total time spent on consulting and preparatory work by their games manager, assistant games manager and personnel manager, was 124 hours. (106 hours for the games manager and assistant games manager, and 18 hours for the personnel manager.) We were not able to verify this. Casino Management Services did not indicate the amount of time they spent on this preliminary work but, presumably,it would be about the same as Community Casino Company.

The companies indicated that the time spent by each of their games manager, assistant games managers and personnel managers in the actual operation of a seven day casino, was approximately 100 hours. That is probably accurate because each casino day is lengthy - upwards of 14 hours - so that a seven day casino might be expected to occupy approximately 100 hours.

Therefore, assuming the correctness of the above time estimates, including consulting and preparation time, the total number of hours spent by each games manager in the production and management of an average seven day casino would be approximately 150 to 160 hours.

From the data provided by the management companies, our accountants produced the following comparative analysis of the rates charged, and hours worked, by management personnel during the actual operation of a seven day casino.

COMPARISON OF RATES CHARGED AND HOURS WORKED BY MANAGEMENT PERSONNEL

	Community Casino Rate Per Day	Casino Services Rate Per Day
Games Manager	$500	$500 (Less for rural casino)
Assistant Games Manager	$500	$400 (Less for rural casino)
Personnel Manager	$200	$300 - $400

HOURS WORKED FOR A 7 DAY CASINO (operational hours only)

Games Manager	96.5	100.0
Assistant Manager	96.5	100.0
Personnel Manager	80.0	100.0

AVERAGE RATE PER HOUR BASED ON A 7 DAY CASINO

	Community Casino	Casino Services
Games Manager	$36.27	$35.00
Assistant Games Manager	$36.27	$28.00
Personnel Manager	$17.50	$21.00 - $28.00

From the foregoing, it will be seen that the daily rates charged by the companies are similiar, with Community Casino charging $1200.00 per day and Casino Services charging between $1200.00 to $1300.00 per day.

The games managers are each receiving approximately $500.00 per day. This may be compared with Alberta, where they get $250.00 per day. However, in Alberta, they work an 8 hour day, and here they work up to 14 hours per day.

The above comparison does not include the time spent in consultation and preparation, which approximates $1,500.00.

Based on the foregoing hours and rates, the average fee charged by one of the management companies (Community Casino) would break down approximately as follows:

Consulting	$750.00
Preparation ($110 x 7 days)	770.00
Staff Assemblage ($50 x 7 days)	350.00
Management ($1200 x 7 days)	8,400.00
Total Fees & Charges:	$10,270.00

In their brief, Community Casino Company stated that the average net fees available for distribution per casino amounted to $9,305.00, with the two principals receiving $7,905.00 and the personnel manager receiving $1400.00. Based on these proportions then, the two principals would have earned approximately $33,000.00 each, and the personnel manager would have earned approximately $12,000.00. It must be remembered that these sums represent the earnings for only eight casinos at the rate of one casino per month for a total of eight months out of twelve.

According to financial statements filed with the Inquiry, for the year ended April 30, 1981, Community Casino Company Limited had revenues of $58,646.00 and expenses of $59,251.00, for a net loss of $605.00; and for the year ended April 30, 1982, had revenues of $85,057.00 and expenses of $86,847.00, for a net loss of $1,790.00. It must be remembered, however, that the "expenses" for both periods included management and consulting fees which were paid directly to the principals, and in those respective periods, these fees amounted to $48,550.00 and $77,905.00.

For the year ended December 31, 1982, Casino Management Services conducted nine casinos, of which three were in the City of Winnipeg (two in the Convention Centre, with the third being the Red River Exhibition Association), and of which six were rural (including the Transcona casino). In that period, the company had revenues of $45,083.60

and expenses of $32,740.33, with a net income before taxes of $12,343.27. The expenses did not include remuneration to, or salaries for, the principals of the company and presumably they would share the net income. For these periods the earnings of the principals of Casino Management Services were obviously less than those of the principals of Community Casino Company. The explanation for this would appear to be that Casino Management Services operated smaller rural casinos, which yielded lesser fees than the city casinos, conducted by Community Casino Company, and that the expenses of Casino Management Services were higher than those of the other company. Mrs. Shelley explained that these higher expenses were largely occasioned by the additional cost involved in conducting rural casinos.

In their brief, Community Casino Company made the point, which is quite valid, that the fees of the management company do not represent a large percentage of the total expense of operating a typical casino. They cited the example of a recent casino which they operated in which the total games revenue, excluding admissions, and Nevada sales (break-open tickets) was $274,000.00 and the expenses were $78,429.65, excluding licence fees. Of these expenses, the management fees for consulting and management were $10,050.00 or 12.8%.

The principals of the management companies are being reasonably well rewarded for their services. They are being paid, not so much for the time they spend - which is average - but rather, for their knowledge, their skill, and their ability to produce excellent financial results for the licencees. Their fees represent a relatively modest proportion of the total expenses of a typical casino, and their services are probably worth the cost, assuming that the services of two games managers and a personnel manager are really needed for an average city casino. This assumption may be questioned.

In the original submission to the Inquiry by the officers of the Licencing Board, the question was posed as to whether the management of the casinos, particularly those held in Winnipeg, might be "top heavy" and whether it really was necessary for the licencees to employ both a games manager and an assistant games manager. It was the view of the Nevada consultants that a single games manager should suffice in the typical Winnipeg casino, held usually at the Convention Centre.

The situation in other provinces might be examined.

In Alberta, the regular casinos last two days per licenced event, although in both Calgary and Edmonton the casinos operate six days per week, with a number of licenced events being accomodated each week; there are frequent dates of operation in other centres. The regular licenced casinos are limited to 30 games which are operated in regulated hours; eight hours week days and 12 hours Saturday. The management team for the casinos consists of one games manager, one supervisor of personnel, one gamessupervisor per 12 to 15 games, and one pit boss per 4 to 6 games. In Alberta, there are also "special status" events, for example, Klondike Days in Edmonton, which lasts 10 days, with games from 120 to 140. These special events are operated by a management team consisting of three games managers, one personnel manager and supervisor and pit boss ratios the same as in the regular events.

In Alberta, the volunteer complement is not as great as in Manitoba, with the volunteers being involved in the casino bank and accounting functions only.

In Saskatchewan, presently, casinos are licenced only to the various exhibition associations having events of three or more days in duration. There, the number of games is 40. The management team consists of one general manager (under contract to the Regina Exhibition Association), one games manager, one personnel supervisor, one games supervisor per 12 games, and one pit boss per 4 to 6 games.

It can be seen, then, that in both Alberta and Saskatchewan, the casinos are operated essentially by a single games manager, and the fair question might arise as to whether the Manitoba casinos could also be operated with a single games manager.

There are some obvious differences between the situations in Alberta and Saskatchewan as compared to that in Manitoba. In Alberta, while the number of games operated in the casinos is roughly the same as in Manitoba, the hours of operation are not as long. In Saskatchewan, the general manager is under contract to the Regina Exhibition Association, and is presumably a professional, while in Manitoba, the general manager is normally and usually a volunteer.

I invited comments on the question from representatives of the two principal Manitoba management companies. Community Casino Company observed that, in the 1980-81 season, their management team consisted of four people, made necessary because of inexperience amongst both staff and licencees; but that, in 1981-82, this complement was reduced to a team of three, reflecting increased expertise amongst the staff, the availability of information to licencees from prior sponsors and the development of management systems to allow for the inexperience of new licencees. They suggested that one big difference between the Manitoba Casinos and those in Alberta and Saskatchewan was that in Manitoba, a very large number of volunteers is allowed and this calls for greater management input to instruct and supervise the volunteers. They explained that, during the typical casino event, the major areas of responsibility are: for the games manager: licencee co-ordination and liaison, management of volunteer functions and profit centres; for the assistant manager: games supervision and productivity; for the personnel manager: staff shifting, supervision and control; for the whole team: games security, customer liaison, licencee education, operational efficiency.

They were fair enough to state that, as the casino business in Manitoba has not had long experience and is still developing, it is likely that the supervisory staff will become more experienced and expert and, in time, it may be feasible to reduce the management team still further.

Representatives of Casino Management Services made the point that the number of management personnel required is, to an extent, dependent upon the experience and expertise of the games personnel; the greater that experience and expertise, the less need there is for supervision and management. There is also a relationship with the number of games supervisors utilized. Casino Management Services observed that, prior to and at the 1981 Red River Exhibition Casino, that company had a games manager and four or five supervisors in addition to a pit boss for every six table units; and that in August, 1981, the position of supervisor was eliminated, and a management team of four people was established, one of whom acted as games manager, with the other three assuming the roles of assistant games manager, personnel manager and relief for the first three.

Casino Management Services submitted that a casino could be operated very well with only a games manager and a personnel manager, provided that the following conditions were met:

1. No more than 30 units in total.
2. Wholly trained and experienced staff.
3. Staff with availability at the disposal of the personnel manager.
4. Uniformity of location and configuration of space allocated to the casino.
5. Permanent employment (or at least regular enough to eliminate the "moonlighting" aspect of personnel).
6. A pool of staff available which conforms to a uniform standard of competence, proficiency and ethics.
7. Complete non-involvement with licencee organization in day to day operations in the coordinations of equipment, location, security, manpower (volunteer) and advertising.

Casino Management Services in particular, has had a good deal of experience with rural casinos, and had some comments to make about them. They felt that rigid rules with respect to staffing cannot be implemented at the rural casinos, but suggested the following guidelines, which they thought worked very well:

1. Up to twelve units - three pit bosses with games manager doubling as one of the pit bosses.
2. Over twelve units - an additional pit boss for every six units or portion thereof (games manager still doubling up).
3. Over twenty units - games manager and one pit boss for every six units.

Casino Management Services also suggested that the rural casinos require the games manager to be actively involved in arranging for equipment, premises, banking, security, advertising, and deployment of voluntary manpower, and that in practice, the games manager in reality acts as a casino manager.

Having regard to the experience in the provinces of Alberta and Saskatchewan, it may be possible to properly and successfully operate a typical seven day Winnipeg casino, with the services of a single games manager, assisted by a personnel manager, who could also act in a supervisory capacity. On the other hand, there are differences between the situation in the other provinces and that obtaining in Manitoba, as noted above, and the reasons given by management representatives for the current management structure seem logical. It really is very difficult to "second guess" the present management companies and conclude that their management team should be differently constituted and deployed. The fact is that the present format is working - and working well - and the relative savings to be achieved by any changes might not be worth the risk of a different approach producing less favourable results. If it wished, the Licencing Board could reasonably reduce the management component on a trial basis to test the effect on casino operations and receipts.

Casino Banking and Accounting

Every casino must have a bank to handle the functions of providing an initial cash float to start the play, distributing chips with which to play, collecting the cash deposited by the players, redeeming the chips presented by the players, counting, recording, and accounting for the cash and chips, and making appropriate withdrawals from, and deposits to, the licencee's bank account. For obvious reasons the function of banker must be kept separate from,and independent of,that of the games manager. Therefore, in Manitoba casinos, the general manager appoints a banker (usually a person of experience in banking and/or accounting) who is supposed to act quite independently of the games manager. The bank manager, in turn, appoints a head cashier, cashiers, a chip banker, pit bankers, a count room supervisor and count room staff, and all of these persons work under his supervision. It is obviously desirable, indeed essential, that the banker possess banking or accounting experience, and it is probably desirable that the cashiers have experience in that field. Sometimes the licencees will have amongst their members, or available to them, professional accountants who are ideally suited to handle the banking and accounting functions of the casino. However, even these persons do not necessarily have specialized knowledge of casino accounting, and the licencee must engage the services of a casino accounting specialist. These private operators provide advice, training of volunteers, and the necessary accounting forms.

There are two private operators providing casino accounting services: Casino Accounting Services and Casino Management Services.

Casino Accounting Services is a partnership of four persons: Robert Kirkland, R.I.A., Alice Kirkland, George De Jonckheere and Lawrence De Jonckheere. The partners state that they became involved in casino banking and accounting when they voluntarily assisted experienced casino bankers from Alberta and Saskatchewan in the Festival

Du Voyageur casino. The business name - "Casino Accounting Services" - was registered in June, 1979. In a brief which the company submitted to me, they emphasized that they were an independent business not committed to working with any single gaming organization; but it appears that they now regularly contract with Community Casino Company to provide banking and accounting consulting services to the licencees employing Community Casino Company.

In their brief,they emphasized that their function is the training and close supervision of all banking volunteers, with a view to ensuring that every single job in the casino bank is performed entirely by volunteers. They stated that the volunteers are the only persons who handle the cash and chip transactions and that, therefore, they, the volunteers, have complete control of the bank.

Although the casino bank is essentially operated by volunteers, Casino Accounting Services does have three paid staff, a casino banker, a chip supervisor and a count room supervisor. The casino "banker" is not to be confused with the head banker or "Bank Director" who is the volunteer appointed by the general manager. The casino banker is responsible for training cashiers, training, explaining the system to and supervising the volunteer Bank Director, and for handling such related problems as, for example, volunteer "no shows", physical lay-out problems, bank security procedures etc. The chip supervisor is responsible for training, supervising, and scheduling duties of, the pit bankers, runners and the chip tray fillers. The count room supervisor is responsible for training and supervising count room staff.

Casino Management Services, provides the other principal banking and accounting service. Casino Management Services provides essentially the same services as those described with respect to Casino Accounting Services.

The Inquiry accountants made a close and detailed study of the casino accounting and banking procedures followed by the two principal accounting and banking services.

The systems used by the two services are not precisely the same. The one, Casino Accounting Services, uses a decentralized "pit bank" system; whereas, Casino Management Services uses a central banking system. The systems are essentially those devised by the private operators and the Licencing Board has not imposed its own system.

The Inquiry accountants were of the view that adequate accounting and banking systems were employed by the two accounting and banking services; that the movement of cash and chips is supported by adequate documentation; and that, from these source documents, financial reports can be and are prepared, showing profit by table, total take for the day, profit by day, and various other statistics, for submission to the licencees and to the Licencing Board.

I have already mentioned that the Inquiry had the benefit of advice from representatives of the Nevada State Gaming Commission, and I have reported on their views respecting the general management of the casinos they inspected. They also observed and advised upon the accounting and banking procedures in those casinos in consultation with the Inquiry accountants. As a result, the following broad conclusions and recommendations were developed:

1. If the procedures specified by either of the two casino banking and accounting services were followed without exception, the controls over cash and chips would be very good.

2. In practice, the controls are dependent upon the expertise of the volunteers. If the volunteers do not fully understand their responsibilities, there can be a breakdown in the control procedures.

3. Contact between volunteers assisting in the cash function and the professionals responsible for the gaming function should be minimized. This is best done by delivering chips directly to dealers from the central bank. Therefore, it is recommended that the regional bank system be discontinued.

4. At present, the count room is neither sterile nor physically segregated from the central bank, contrary to

proper banking and accounting practices.

5. The drop boxes that collect the cash at the gaming tables should be designed to ensure that cash cannot be removed through the slot where the money is inserted.

6. The Board should establish its own accounting and banking system for casinos, which would be standard and which would be required to be followed in the operation of all casinos in the province. Such a system would include the designing and provision by the Board of standardized pre-numbered multi-copy accounting forms to record the movement of cash and chips and to record the casinos' revenues and expenditures. In this way the Board would be in a much better position to be able to comprehend and adequately monitor the accounting and banking procedures at the casinos. Presently, the Board is in a position where it must understand and attempt to supervise two different systems, neither of which is of its own making.

It is generally accepted, for obvious reasons, that the functions of games manager and banker should be kept absolutely separate and independent of one another. Otherwise, there are too many opportunities for collusion and fraud. That was clearly recognized by the Haig Commission, and the subject of one of its recommendations. The present terms and conditions attached to casino licences require that these two functions be separated. Nominally, at least, in practice in the Manitoba casinos, the jobs of the games managers and the banker, who is generally a volunteer, are separated. However, there is one problem which arises in the use of volunteer bankers, in the context of the present situation, where the casinos are managed by either one or the other of the two principal management companies.

The abilities of the volunteer bankers are bound to vary according to their respective knowledge and experience. Some will be very knowledgeable, and, utilizing little assistance from the banking and accounting services, will be able to act quite independently; others will not be so knowledgeable and experienced, and might be in danger of being very much influenced by - even dominated by - the professional advisers. It should be emphasized that the Inquiry found no evidence of any improper influence or impropriety. However, the situation could arise where, for all practical purposes, the real banker would not be the volunteer, but instead, by simple default, would be the professional adviser because of the volunteer's lack of knowledge and experience.

Such a situation would not present a problem if it could be said that the present banking and accounting services were truly independent of the games management companies. However, that is not the case. The operator of Casino Management Services is at one and the same time the provider of banking and accounting services to the licencees with which the company contracts. Community Casino

Company regularly sub-contracts with Casino Accounting Services to provide banking and accounting services and so the two companies are not entirely unrelated or independent of one another. Accordingly, in the cases of both of the two principal management companies, situations could develop where they would be in a position to control, not only the management of the casino, but the banking and accounting functions as well, depending, of course, entirely upon the quality of the "independent" volunteer banker, and the extent to which he or she might necessarily have to rely upon the professionals.

The problem might be approached in one of two ways: the Board should either be at pains to satisfy itself that the volunteer banker has sufficient expertise to be able to be truly independent of the professional advisers; or, the Board should insist that the professional advisers divest themselves utterly of any connection with a casino management company.

The charges for the casino and banking services average approximately $550.00 per day, and considering that they must provide a banking adviser, a pit supervisor, and a count room supervisor, all of whom must work very long hours, these charges are, in my view, reasonable. Their contracts are approved by the Board.

Equipment Suppliers

These private operators are in the business of renting to licencees the necessary equipment to operate a casino, including tables, seats, bank assemblies, and chips.

There are only two: The Red River Exhibition Association and Club Casino Equipment.

The Red River Exhibition Association invested approximately $85,000.00 in their equipment, and, in the 1981-82 casino season, provided equipment to 8 casinos in the City of Winnipeg.

Club Casino Equipment is owned by six people: Don Blair (30%), Gerald Turenne (30%), Cyril Chabot (15%), Brent Mooney (10%), Harold Swick (10%), and Bernie Turenne (5%). The company, then, would appear to be controlled by Don Blair and Gerald Turenne, and these are the same persons who control the casino management company, Community Casino Company.

Club Casino Equipment has invested $110,000.00 in order to acquire the equipment which is leased out to various casinos in the province, and, in the 1981-82 season, provided equipment to 5 casinos in the City of Winnipeg.

In 1981-82, the Red River Exhibition Association earned a net revenue of $30,082.00, and Club Casino Equipment earned a net revenue of $14,035.00. They had been charging approximately $3,500.00 per 7 day casino, but have reduced these rates to approximately $2,000.00. An analysis of their financial operations, prepared by our accountants, is appended as Schedule "I" .

The analysis indicates that although the average profit per casino day is comparable, it appears that the Red River Exhibition Association has the upper hand. Competition between the two companies is keen, as demonstrated by the low rates currently being charged.

There cannot really be any complaint about the reasonableness of the fees being charged for the equipment. They have been kept in line by the competition between the two equipment companies. Their contracts are approved by the Board.

There is one aspect of Club Casino which deserves special comment. It is controlled by the same persons who control the casino management company, Community Casino Company. In principle, a casino equipment supplier probably should not have any interest in a casino management company and vice versa, as there is a potential for conflict of interest and even impropriety. However, I have no reason at all to suspect impropriety in relation to Club Casino and Community Casino Company. Community Casino publishes in its brochure, which goes to prospective licencees, that it does have an interest in Club Casino, and so nobody is mislead. If there were to be a general requirement that the principals of a casino equipment company could not have an interest in a casino management company, that might lead to Club Casino going out of business. It would be unfortunate if this were to occur, because it is providing a good competitive service to that of the Red River Exhibition Association, at a reasonable price, and it is clearly benefitting the licencees.

The equipment provided by the two companies has never been independently checked by the Board. However, generally, the Inquiry received no complaints about the equipment or its quality. The roulette wheels used in the casinos inspected by the Nevada consultants were checked by them and found to be satisfactory.

Security Companies

Good security is obviously essential to the proper running of a casino due to the numbers of people in attendance and the large amounts of cash and chips (which are as good as cash) being handled. There are presently three security companies providing services to casinos in Manitoba.

Cannon Security Ltd., a Manitoba company, has its headquarters in Domain, Manitoba, and was formed to operate in the armed security field only. The principals of the company are Dennis Litster, President, and Thomas S. Huffman, Treasurer.

Northwest Protective Services Ltd. is a security firm which was incorporated in 1979. Its shareholders and principals are: Kenneth Pydee, Cyril Berrington, James Wilkie, Richard Wilson and Brian Tobin. All these men are active in the company. Its offices are at 1100 - One Lombard Place, in Winnipeg, Manitoba. The company is engaged in general security work, and has been providing security services for the casinos and for both Buffalo and Bison Bingos in the City of Winnipeg.

The third company in the field is Trojan Security Services, with offices at 510-352 Donald Street, in the City of Winnipeg. This company does general security work, and has been in the business for approximately 15 years.

Trojan has done very little work for casinos, and their City Operations Manager could recall only one where Trojan had the contract. However, the Licencing Board has been making a practice of advising Trojan of upcoming casinos, and Trojan has been making some bids, albeit, without success.

Each of these companies provide armed personnel, who are licenced and have passed the test administered by the City of Winnipeg Police Department, Firearm Controls Unit.

The three security companies are apparently reputable and providing a good service to the casinos. Each company has established its own minimum standards for their employees, and each tries to ensure that the personnel it provides are at least physically fit and able to properly handle a firearm. Each company insists that the personnel who bear arms have passed the test administered by the City of Winnipeg Police Department Firearm Controls Unit.

Cannon Security Ltd. quotes a price of $10.25 per hour per man; Northwest Protective Services Limited quotes a price of $12.00 per hour for each man; and Trojan Security Services have been charging out the time of their men at $14.00 per hour, but have bid casinos at $10.00 per hour - on one occasion going as low as $8.75. Both Cannon and Northwest Protective quote an overall price for the casino, roughly based on the hourly rates, with adjustments to make the total price package as attractive as possible to the client. Thus, the fees range from $10.00 to $12.00 per hour per guard, and due to the competition amongst the companies, these hourly rates are probably discounted even further. They do not appear to be unreasonable, considering the personal qualities and skills which the guards have, and compare well with the hourly rate of $26.00 per hour charged in Alberta.

While I have no reason to believe that the security guards actually being employed at the casinos are not adequate for their tasks, nevertheless there are no uniform minimum legislative or regulatory standards regarding who should be permitted to be a security guard, and what qualifications he or she should possess. It seems obvious they should be of good character, free of any related criminal record, physically fit, and skilled in the use of firearms. At present these matters are not ensured by law or regulations.

Both Cannon and Northwest Protective Services have been providing two armed guards for an approximate 13 hour period to each casino held in the City of Winnipeg. One guards the banking and cashier areas, while the other acts both as an escort for pick-ups of cash from the floor and general security. As well, a guard usually accompanies the persons who are picking up the cash floats from, and making deposits to, the bank.

Representatives of each of the three security companies have questioned whether there are sufficient security personnel on hand at the casinos. Mr. Litster, a partner in Cannon, thought there should be at least two men, with a third for a spare,per shift; Mr. Pydee of Northwest Protective though that there should be more than two. Mr. Pudoloski of Trojan, thought there should be a minimum of four persons.

In my opinion, it makes sense that there should be at least three guards. With only two, there is only one guard, the one guarding the cash and accounting,to oversee the entire casino, when the second guard is needed to escort cash pick-ups from the floor. That one guard must remain near the cash and accounting areas, and surely cannot effectively secure the whole casino from those places.

There seems to be general agreement that at least some of the guards should be armed. However, the City of Winnipeg Police Department has recommended that the number of armed guards present at a casino at any given time should be limited to two persons.

There are no regulatory standards as to what measures should be taken and what methods should be employed to adequately secure the casinos. A representative of one of the security companies felt that there was not sufficient consultation in this regard between the security companies and those managing the casinos, and recommended that prior to each casino, the company awarded the contract for the security work should be asked to advise on what steps should be taken for that specific casino, to ensure the best possible security.

Casino Employees

In order to properly operate a casino, there must be available persons with a sufficient degree of expertise to be able to act as supervisors, pit bosses and dealers in the actual running of the various games of chance including blackjack, roulette, etc. Both of the principal management companies, the Community Casino Company and Casino Management Services, have assumed the responsibility of recruiting and training these persons with the result that there is now a pool of individuals who are qualified to act as casino employees. They have banded together in an association known as "Association of Casino Employees (A.C.E.)". The Association has a constitution which states as its "aims and objectives" that the Association is to be primarily a social club, but also is to be empowered by its members at a general meeting to act on their behalf to "enhance and protect their position" in all "casino related affairs" in the Province of Manitoba.

In a sense, these employees fall between two stools: on the one hand, they are recruited and trained by the casino management companies, but on the other hand, they are, technically at least, employed by the individual licencees which directly pay them for their services. The two principal management companies are careful to say that they only "recommend" to the licencees the persons best suited to be casino employees and then, strictly on behalf of the licencees, hire those persons so recommended. Yet it would appear that the management companies exercise a considerable degree of control over the employees. Not only do they recruit and train them, but they assess their qualifications, and undoubtedly their recommendation as to who should be hired carries a lot of weight with the licencees and is virtually decisive.

The casino employees have received their training from those operating the two principal management companies. They have not been required to demonstrate their expertise through testing procedures and they need not be registered with, or licenced by, the Board, as is required in other jurisdictions, such as, for example, the Province of Alberta. The representatives of the Nevada State Gaming Commission, engaged as consultants by the Inquiry, had occasion to observe in action those casino employees working at the Winnipeg casinos which they attended. These consultants formed a favourable impression of the skill and competence of those employees. Throughout the course of the Inquiry, we have received no substantial complaint about the abilities of the casino employees.

A supervisor is paid $8.00 to $9.00 per hour, depending on experience, a pit boss $7.00 per hour, a dealer $7.00 per hour, and a roulette dealer $6.25 per hour. On the face of it, considering that these employees require specialized knowledge and skills, the rates appear to be reasonable. They are comparable to the rates paid, for example, in Alberta, where the rates are $10.00 per hour for supervisors and pit bosses, and $6.50 per hour (plus tips) for dealers.

In their brief the Association for Casino Employees has submitted that there should be uniform wage standards with appropriate increases. The problem is that, at present, the employees, in effect, have no party to whom they can look, or to whom they can make representations, with respect to wage levels, increases, hours to be worked and other conditions of work; the casino management companies are not responsive, because they are not legally the employers; and the legal employers, the licencees, are not responsive, because they change with each casino, and there is no continuity of relationship between them and the employees. That problem might be overcome if the Board were to set the wage rates, the hours of work and other conditions of employment and were to deal with any applications for wage increases and changes in employment conditions. That way, employee relations could be dealt with in an orderly way, and the employees would have a responsible party with which they could deal.

At present, no tipping of casino employees by patrons is allowed in Manitoba casinos. In their brief, the Association of Casino Employees has submitted that tipping should be "reinstated" and administered by the Association. This would envisage the Association appointing one of its members to collect all tips to be deposited into a special tip box, the contents of which would be shared amongst all dealers, in accordance with the number of hours each had respectively worked.

There was some division of opinion in the submissions made to me on the subject of tipping. Members of the R.C.M.P. Gaming Division saw nothing inappropriate about tipping, as long as the tips were pooled, which is what is proposed by the Association of Casino Employees. Tipping in this fashion is permitted in Alberta. On the other side, Mrs.Shelley, of Casino Management Services, was against tipping, because she felt it bred a vested interest, soliciting of tips and extraordinary services; she felt the reinstitution of tipping at the casinos, could, in fact, promote pushing of a hand or some other form of cheating. At a meeting held earlier this year with the Licencing Board, some regular casino players expressed reservations about tipping on the ground that it might leave an unfortunate impression in the minds of some players that favoritism would be shown to those players giving the tips.

In my opinion, no tipping under any conditions should be allowed. I recognize that, by pooling of tips, there is perhaps less chance of a specific dealer favoring a specific player, but there is still a chance that a specific dealer, or group of dealers, knowing that a player has tipped, and knowing that he or they will at least partially benefit, might be tempted or inclined to show favoritism; moreover, appearances are important, and regardless of whether favoritism is shown, there is the ever present possibility that other players who do not tip might suspect that undue favoritism or extraordinary service might be shown or given to those who do.

General Comments

In summary, the licencees operating casinos appear to have been well served by the private operators and games personnel who are apparently competent and whose fees are generally reasonable. The Licencing Board has been at pains to maintain, and has been keeping, the fees and charges of the private operators at acceptable levels. Competition, too, has had the same effect, particularly with respect to the keen rivalry between the two principal management companies and the two equipment companies.

Most of the gross receipts from the casinos in the City of Winnipeg have been going to the licencees. For example, in 1980, the gross receipts from 9 Winnipeg casinos were $1,410,733.00, the expenses were $596,267.00, and the profit left to the licencees was $814,466.00; in 1981, the gross receipts from 11 casinos were $2,356,594.00, the expenses were $944,482.00, and the profit paid to the licencees was $1,412,112.00. The licencees also derive revenues from admissions and sales of break-open tickets.

In rural Manitoba, where the casino activity is not nearly so high as in the City of Winnipeg, the situation has not been quite the same. There, in the years 1977, 1978, 1979 and 1980, the major portion of the gross receipts from the casinos was paid out in expenses, although the profits were still respectable. For example, in 1980, the gross receipts from 10 casinos were $108,085.00, the expenses were $70,313.00 and the profit paid to the licencees was $37,772.00. However, in the year 1981, the greater portion of the gross receipts was paid to the licencees. In that year, the receipts were $77,883.00 from 9 casinos, the expenses were $30,946.00 and the profit for the licencees was $46,937.00. (See: Casinos - Comparison of Operating Results - Schedule "H".)

The expenses for a recent Winnipeg casino, which might be taken as typical, were as follows:

Expenses	
Tickets	909.88
Meeting	48.00
Sundry	742.66
Interest & Bank Charges	652.14
Advertising	6,441.75
Equipment rentals	9,728.75
Playing Cards	582.75
Banking services	3,845.00
Payroll	36,441.30
Staff Room	517.39
Wheels Supplies	33.00
Carnations	97.13
Convention Centre Rental	5,587.03
Insurance	750.00
Management Company	10,050.00
Security	2,100.00
Total -	$78,526.78

All of the above expense items were necessary. For the most part they would appear to be reasonable. Casinos are labour intensive, and so the payroll expense is the largest item in the budget. The payroll for the above casino was $36,441.30, or 46% of all expenses.

There is not much which could have been done to reduce that payroll since the games personnel were necessary for the proper conduct of the casino and were paid the going rates which I have already concluded are reasonable. In the above casino, the consulting and management fees were $10,050.00 or 12.8% of the expenses. It is possible that if only one instead of two games managers were to be employed, then those expenses could be reduced by approximately $3,000.00. However, while that is a significant saving with respect to those particular fees, it would not make a substantial overall difference to the entire expense budget.

Winnipeg casinos are big business. They generate an annual revenue of $3,000,000.00. If the recommendations of this report are implemented, the casinos should continue to operate in a manner that will enhance the reputation of the Board and the private operators, and the casinos will continue to generate substantial funds for charitable organizations.

Controls

There are many ways in which those operating and providing services to a casino might be, and should be, controlled. There are already a number of important and effective controls in place through the terms and conditions for the conduct and operation of a casino, specified by the Manitoba Lotteries & Gaming Licencing Board, and made part of each casino licence. These terms and conditions were last revised on November 17, 1980, following the report of the Haig Commission in January, 1979. Currently, as a result of studies made by Board officials, these terms and conditions are being further revised, broadened and strengthened.

The present terms and conditions provide for the licencee to appoint a committee made up of members from the licencee, and to select from these a general manager to be the licencee's representative in all matters relating to the conduct and management of the casino. The committee, through the general manager, is to be responsible for the hiring of a professional games manager, the hiring of a banker, and the hiring of suitable security personnel. This follows a key recommendation made by the Haig Commission, and I certainly agree with it. It is based on the premise that a casino must be under the control and supervision of the licencee and not a private operator; a private operator cannot control a casino, without breaching the provisions of The Criminal Code of Canada, prohibiting the operation of a common gaming house. Therefore, as far as possible, all of the chief and key management personnel of a casino should be members of the licencee.

The terms and conditions call for the licencee to employ a qualified and experienced professional games manager, who is to be responsible for the dealers, pit bosses and pit supervisors, is to conduct preliminary training sessions of voluntary personnel, if necessary, and is to supervise the conduct and operation of all the games and maintain control over them. This, too, was a recommendation of the Haig Commission, and I am in agreement with it.

The terms and conditions specify that the games manager or his staff shall have no role or responsibility in the area or operation of the cashier's cage, counting room, or the recording and depositing of money or counting of chips. This was a recommendation of the Haig Commission, and there can be no disagreement with it. It appears to be accepted that the functions of games management and banking should be kept completely separate.

The Board should ensure that all games personnel, including games managers, those providing banking and accounting services, pit supervisors, pit bosses and dealers, are competent. The present terms and conditions do not address this except in the most general way. They do provide that the games manager must be "qualified and experienced"; that the banker is to be a "qualified accountant or bookkeeper"; and that the counting room staff should be personnel "preferably with cash handling experience". They are silent as to the qualifications of other games personnel such as the pit supervisors, pit bosses and dealers.

The Board could help in ensuring the competence of all games personnel by making suitable arrangements for their training and their testing. Qualified persons could be employed for the purpose of conducting training sessions when required, and testing games personnel.

All of the above games personnel, and, as well, security personnel, should be licenced by the Board. There is no provision for this in the present terms and conditions, and no system of licencing is in effect. There appears to be unanimous agreement among the private operators concerned that a system of licencing should be introduced. Submissions recommending this were received from the Community Casino Company, and the Association of Casino Employees. A similiar recommendation was made by the Haig Commission. In order to get licences, games personnel would have to demonstrate that they were of good character and credit, that they had no prior related criminal records and that they were competent. Of course, their competence would be judged through the testing procedures recommended above.

The majority of the voluntary personnel employed at casinos will not require any particular level of knowledge and expertise and can be instructed in their jobs by the games manager and the banking consultants priot to the opening of the casinos. This is the present practice. They should certainly be of good character, and should be checked through the local police for any related criminal records.

The casino equipment should be specified and approved by the Board. This was the recommendation of the Haig Commission. The present terms and conditions are silent on this point.

The Board should attempt to control the contracts between the licencees and the private operators, with a view to ensuring that their conditions and the prices to be charged, are fair and reasonable. This was recommended by the Haig Commission. The present terms and conditions do provide that agreements for all persons hired by the licencee shall be in writing and that copies of these agreements must be forwarded to the Board for approval, not less than seven days prior to commencing the casino. This provision gives the Board the power to approve or disapprove of the contracts and to establish guidelines for fees or fee schedules. The Board should also call for and inspect the management contract proposals to ensure that the licencees are fully informed by the proposed contractors.

The Board should assume the responsibility of fixing and controlling the remuneration and working conditions of the casino employees below the level of the private contractors, namely supervisors, pit bosses and dealers. The present terms and conditions do not address this at all. The wages of these personnel form a very large part of the total casino expenses, and Board regulations would not only ensure that the wages would remain at reasonable levels, but as well, would give the employees an opportunity, which they really do not now have, to bargain meaningfully for any justified increases in their remuneration and changes and improvements in their working conditions.

Casino equipment, particularly the wheels, should be periodically checked by the Board to ensure that it is in good working condition. This was a recommendation of the Haig Commission, but it is not in the present terms and conditions. In fact, at present, the Board does not have in its employ any person trained and competent to do this checking, although I am given to understand that Board personnel could be trained in this work by experienced persons from other jurisdictions.

The casino banking and accounting procedures and practices should be established by the Board and standardized. The present terms and conditions contain little guidance on this subject. The Board has pretty well left it to the private operators to devise and institute their own accounting and banking systems, which are different. In my opinion, it would be desirable if these systems were made consistent with one another, and standardized in accordance with regulations emanating from the Board. In this way, the Board could ensure that the banking and accounting systems were the most effective, and it would be much easier for the Board to inspect and enforce a system of its own making, rather than to attempt to understand and enforce different systems designed by others. See the recommendations contained in the section of this report under the heading of "Casino Banking and Accounting".

Once the Board's own banking and accounting system is in place, the Board should constantly scrutinize and monitor the casinos while in operation to ensure that the system is being properly observed. This was a recommendation of the Haig Commission, but the present terms and conditions do not require it. In fact, no such inspection is occurring. The Inquiry accountants and the Nevada consultants were concerned about the lack of controls in this regard, and saw urgency in implementing them.

The actual conduct of the casinos, and the performance of all game personnel, should be constantly scrutinized and monitored by the Board. The present terms and conditions do not contemplate this. The licencees and the public deserve assurance that the management companies and the games personnel are operating the casinos and conducting the games therein appropriately, efficiently, and, above all, honestly. At present, there is no system of safeguards and checks in this respect. There is no person presently employed by the Board capable of monitoring and checking the manner in which the casinos are operated and the way in which the games are conducted by the various games personnel. However, there are courses available to train persons in this type of work, and the Board should take advantage of these to cause a sufficient number of their personnel to be educated in this area, so that the casinos can be properly and meaningfully monitored.

The inspections would, for example, include: surprise spot-checks; observations of how closely the dealers were being supervised; obtaining and analyzing of several shoes of cards to determine if there is anything amiss.

Government inspectors should have the power to forthwith close down a casino if there is anything materially wrong.

Once again, the Nevada consultants were concerned about the present lack of controls in this area.

Fairly specific rules regarding security should be laid down. The present terms and conditions are rather vague in this regard, merely stipulating that the licencee shall "employ sufficient security personnel to maintain order and security throughout the whole casino area", and that "special emphasis" would be the security in the cash cage and in the counting room area.

As in the case of the other private operators and the games personnel, the Board should ensure that the security personnel are competent. Minimum qualifications of physical fitness and skill in the use of firearms should be laid down. Security personnel should be required to demonstrate that they have these qualifications and that they are of good character with no related prior criminal records.

The terms and conditions should be specific as to the minimum number of security personnel to be employed in the casinos and the Board should attempt to establish standards, setting out specific security measures and methods to be employed in the casinos.

House Rules and Games Rules

At present each casino has its own set of rules which it may change at its discretion. The rules are established in consultation with the casino management companies, and, effectively, the rules at each casino are those recommended by these companies. Clearly, there should be one set of rules applicable to all casinos established by the Lotteries Licencing Board. In this way, all concerned will know exactly where they stand and there would be no potential for sudden, unexpected rule changes which may not be fair. I am not suggesting that this is a common occurrence, but the possibility of it should be eliminated.

There are, however, certain rules which are followed and which minimize the opportunities for players to cheat. The Nevada consultants were favourably impressed with them. They are: the players never touch the cards, and therefore cannot mark or change them; the cards are dealt using a shoe containing four or five decks, thus reducing dealer errors and the advantage the players would gain from these errors; and the dealer does not take a second card until the players are finished playing, so that there is no way of pre-determining how the dealer's hand will play, or of the dealer tipping off a player as to whether the player should "hold" or "take". These are good rules and should be maintained.

I received briefs from the Casino Players Association which contained many suggestions for changes in the house and game rules. The thrust of the briefs was that the present rules tended to favour the house too much, to the disadvantage of the players. Interestingly, representatives of both Community Casino Company and Casino Management Company agreed that this was so. Some of the opinions offered by the Association of Casino Players were:

a) All of the tables in the casino should remain open as some players like to remain with the same dealer and they should not be forced to move from one closed table to another table remaining open.

b) The dealers should all be required to go their full shift of 40 minutes on and 20 minutes off. This is the stated practice but it is not always observed. If a dealer is not doing well, he may be relieved prior to the expiration of his allotted time. On the other hand, if the dealer is doing well, he may be kept on long after the expiration of that time.

c) When a dealer changes, the practice is to discard one or more cards in the deck - that is to say "burn" the cards. This practice should be limited to one card only, because where more than one is discarded, it interrupts the "run" of the cards too much.

d) When dealing, the practice is to cut the deck and place the cut card in the middle of the shoe. Then the cards are dealt from the shoe only down to the cut card and not beyond. This means that a very large number of cards in the shoe are not played, and, in the opinion of the players, this too interferes with the "run" of the cards. Therefore, they propose that the dealers be compelled to place the cut card at least thirty cards from the rear of the shoe and not more than one-third from the rear of the shoe.

e) The three dollar minimum should be changed to a $2.00 minimum as there are many players who are more comfortable with that.

I do not propose to examine in detail the rule changes proposed by the Association of Casino Players to see whether or not they are justified. The above points are mentioned only to give some indication of the nature of the concerns expressed by the casino players. However, it is certain that there are currently no standard house and game rules, and there seems to be general agreement by the casino management companies as well as the Association of Casino Players, that such rules as do exist could be improved from the standpoint of the players. Standard rules should be established, and, in devising them, the Board should take into account the concerns and recommendations of both the management companies and the casino players. Consideration should be given to making the rules as fair as possible to all concerned, with a view to striking a reasonable balance between the interests of the players and the need of the licencees to earn reasonable profits from the casinos. When all is said and done, it must be kept in mind that the basic purpose of the casinos is to serve charitable interests; but it is necessary also to keep the games as fair and as attractive to the players as is reasonably possible, because it is only their continued patronage which will ensure the continued success of the casinos.

INCIDENTAL AND MISCELLANEOUS MATTERS

Introductory

My terms of reference included the study and evaluation of "matters ... the Commissioner may consider to be incidental" to the main subjects of the Inquiry. There were a number of incidental matters which arose during the course of the Inquiry, some of which were truly related to the subjects and others which were clearly outside of the study. I propose to mention these matters in this part of the report.

General Submissions

A number of organizations took the opportunity to make general submissions to the Inquiry. These did not relate to the subject of private operators, but because these groups went to considerable trouble to prepare briefs and to make submissions, I feel I would be remiss if I did not at least refer to these presentations in my report, and pass on to the government the points the groups were trying to make.

The Horsemen's Benevolent and Protective Association (Manitoba Division) presented an oral submission to the public hearings. This organization represents about 1,000 horsemen and trainers who race in Manitoba. Their point was that the proliferation of lotteries in Manitoba has been damaging to the racing industry. They submitted that as a group they have been losing money and that they have large investments and have been losing out to persons conducting other forms of lotteries, with no investment and no risk. They submitted that the number of casinos and other lotteries should be reduced. They stated that the attendance at Assiniboia Downs Racetrack has been steadily declining since 1979. They said that it was easy to blame the general economy for this, but that there does not appear to be a similiar problem in other provinces, for example, Ontario, which they said does not have the same level of gaming activity as Manitoba. They did not have any statistical evidence to back up their points, but their president said that he felt that their case was self evident.

The Manitoba Heart Foundation submitted a brief to the Inquiry and made an oral submission at the public hearings. They stated that they have unique and overwhelming responsibility, and a considerable need for funds. They suggested that the Manitoba Heart Foundation should be awarded an annual casino licence, and that perhaps the Licencing Board should ascertain a category of organizations which are of sufficient importance that they ought to be guaranteed an annual licence.

It is interesting to note that they have the opposite point of view from that of the Horsemen's Benevolent and Protective Association, in that they felt that charitable lottery operations should not only be continued at their present level, but should be expanded for the purpose of raising monies for worthy organizations in need.

The Winnipeg Convention and Visitors' Bureau submitted a brief to the Inquiry, and made an oral submission at the public hearings. Their comments were most interesting. They are a private sector non-profit association dedicated to the promotion and servicing of visitors to Winnipeg and Manitoba. They have many members which are directly involved in the sponsoring of lotteries for charitable purposes. They said that the visitor and convention market in Winnipeg and Manitoba had grown over the last decade to one of the major industries in the city and province; that in 1981, the Province of Manitoba reported that over two million tourists came to Winnipeg for leisure and recreation reasons; that over 480 million dollars were spent by visitors in Manitoba during 1981 and of these approximately 316 million dollars were spent in and around the Winnipeg region; and that American visitation to Manitoba has increased steadily and in 1981 there were 860,000 visits from U.S. citizens who spent an estimated 16.32 million dollars in the province.

The brief stated that research studies have concluded that horse racing in Manitoba is one of the major tourist draws from the northern midwest states and that other high levels of appeal to American visitors are the cultural and professional sports events in Manitoba. The brief singled out certain professional arts groups such as the Winnipeg Symphony Orchestra, the Manitoba Opera Association, the Royal Winnipeg Ballet and the Manitoba Theatre Centre as contributing to the tourism infrastructure. The brief said that these organizations, coupled with such events as the Festival du Voyageur and Folklorama, are all used by the Bureau and the province to market Winnipeg to potential visitors. The brief noted that many of these organizations have been employing casinos and other lotteries to assist in their finances and that any change or cutback in the existing format could be harmful to their viability.

(Incidentally, the Manitoba Hotel Association met privately with the Inquiry and submitted a brief to it. While their brief related essentially to the marketing of break-open tickets in the hotels, they did mention in passing that their collective experience had shown that certain organizations and groups were of first importance to the tourist industry in Manitoba, and they, too, singled out the race track, the Winnipeg Symphony Orchestra, the Manitoba Opera Association, and others, including the Manitoba Museum of Man and Nature.)

Further in their brief, the Winnipeg Convention and Visitors' Bureau noted that, within the last year, legislation in the State of North Dakota has dramatically liberalized their gambling laws which could provide a major attraction to tourists in competition with the lotteries industry in Manitoba.

The brief concluded that lotteries and casinos should continue to be allowed under the existing legislation; that there should be a strong central control to regulate these activities; and that the distribution and allocation of funds should be administered from one source and should be regulated by the province.

The Festival du Voyageur presented a private brief to the Inquiry and, as well, their representative met with me to discuss generally the subject of casinos. In their brief, the Festival du Voyageur stated that they fully realized and appreciated that the major mandate of the Inquiry was directed at private operators but that nevertheless, their Board of Directors felt it was imperative that special attention be given to the casino - Great Rendez-Vous Casino - which has been operated by the Festival du Voyageur since 1977. In summary, the brief made the point that the casino has not only become one of the many major tourist attractions in the Festival du Voyageur's winter celebration, but it is of major importance to the financial viability of the entire organization. The brief stated that the Festival du Voyageur sponsors in excess of eighty events, some of which produce enough revenues to break even, or show a slight profit, but most of which are non-revenue producing and depend heavily upon the revenue producing events, notably the casino, which is the only major source of fund raising and comprises approximately fifty per cent of the organization's net revenue.

The Festival du Voyageur submitted that for the foregoing reasons it should be guaranteed an annual casino licence.

The Manitoba Metis Federation Inc. submitted a private brief to the Inquiry. The organization represents the Metis and non status Indians of Manitoba which approximate 100,000 in number and comprise two-thirds of the native population of the Province. The brief stated that many of the Metis are scattered across the province in rural and remote communities; and that in Winnipeg the most current estimate of native population is accepted as 23,000.

The brief made the point that bingos have become very important to the native people, both as a social event and to raise monies for certain important needs. Bingos conducted by native persons in rural and outlying communities have raised monies for such groups as a native cemetery committee and for assisting families that have been burned out of homes or which require transportation monies to visit a family member in hospital.

The brief suggested that the native persons in Manitoba should benefit from the profits generated through the operations of bingo and, in particular, commercial bingo halls, and made the observation that typically, two-thirds of the patrons at a bingo hall are of native ancestry. The brief suggested that the revenue generated through bingo hall operations could be used to fund a number of needed, but presently unavailable, services and facilities for native persons, including a scholarship fund, a neighbourhood family support centre, single parent family support services, inner city sports programmes, historical cultural studies and an emergency fund for transients.

The brief submitted that if bingo hall licences become available in Winnipeg, or in other centres with a large native population, the Manitoba Metis Federation should be given first consideration for such a licence.

In the section on break-open tickets I have already made reference to the submission made by the St. Boniface General Hospital Research Foundation Inc., which is the beneficiary of the profits from the sale of break-open tickets in hotels in Manitoba, and which proposes to use these profits to build a research building located on the grounds of the St. Boniface General Hospital in Winnipeg at a cost of approximately six million dollars. Their brief submitted that break-open ticket licences should be given only for a specific project and for a specific amount of money, that is, six million dollars for the research building; that once this objective has been met, or the sum has been met, the licence should be transferred to another project; and that the hotels should be used as sales outlets as this gives everyone throughout the whole province the opportunity to participate and the monies earned then can be used for a worthwhile project, or projects.

The Chairman of the Health Sciences Research Fund sent a letter to the Minister responsible for lottery activities, Mr. L.L. Desjardins, requesting that the Health Sciences also be granted a licence to sell break-open tickets in the hotels. That request would fit in with the proposal made by the St. Boniface General Hospital Research Fund, that once their objective for the research building has been met, their licence should be transferred to another worthy recipient. The Health Sciences would doubtless qualify as such a recipient. More than one organization could be included in the beneficiaries of the hotel sales.

The Inquiry received a letter from Rainbow Stage Theatre which made the point that Rainbow Stage is Canada's largest and oldest continuously operating outdoor theatre; that it is an important local employer; and that it is a tourist attraction and a unique showcase for local talent. The letter stated that Rainbow Stage has been self supporting to a larger degree than any other performing arts group; that, until the present, it has not been necessary to consider fund raising outside of their established parameters; but that, unfortunately, the state of the economy, and its effect on attendance in 1982, makes a major deficit an inevitability for the 1982 operating year. Rainbow Stage said that this emphasises the importance of a casino licence to ensure their continued viability.

There is a great deal of profit to be made in the lottery industry by charitable and community organizations, and those which have engaged in this field, have been able to generate considerable funds which have been of the greatest assistance to them, and in some cases, perhaps have actually been their salvation. This opportunity for profit has been recognized by countless charitable and community groups, and, understandably, they are all anxious to share in it. In some areas which have been particularly profitable, there has been great competition for licences, noteably with respect to the operation of casinos in the City of Winnipeg, and latterly, now, with regard to the sale of break-open tickets in the hotels. The difficulty is that there are not enough licences to go around, and some general approach and system must be devised to ensure that the profits from the lotteries are being shared not only equitably amongst all of those wishing licences, but that the profits are used to the very best advantage and serve those charities and groups which most deserve and need the funds. This whole problem is not part of my mandate, but I believe that it is a concern of the government and one which they propose to address. Some of the foregoing briefs have suggested ideas for the proper apportionment of the lottery profits which the government might want to consider. These include:

1) The submission by the Manitoba Heart Foundation and the Festival Du Voyageur, that certain groups be virtually

guaranteed an annual licence to conduct some form of lottery on the grounds that they are of the utmost importance to the community.

2) The submission made by the Winnipeg Convention & Visitors' Bureau (and echoed incidentally, by the Manitoba Hotel Association) that from the standpoint of tourism, certain groups and organizations are considered to be great attractions to out of province visitors, for example, the Manitoba Symphony Orchestra, the Manitoba Opera Association, the Royal Winnipeg Ballet, Festival Du Voyageur and Folklorama. Perhaps they should be given priority.

3) The submission of the Manitoba Metis Federation that particularly disadvantaged groups should have a prior claim on lottery proceeds.

I am merely mentioning these points because they emerged from the submissions listed above and throughout the course of my inquiry; I am making no comment whatsoever as to whether they would be the best solution or solutions to a difficult problem,but I thought they would be of interest to the government. I have not studied the problem in depth and I was not commissioned to do so.

Kinsmen Club of Winnipeg

I deal separately and specially with the media bingo conducted by the Kinsmen Club of Winnipeg Incorporated. I do so because this is a major bingo operation and one which had encountered difficulties with its former private supplier.

There is presently before the Manitoba Courts, an indictment alleging a conspiracy to defraud the Kinsmen Club of Winnipeg Incorporated of monies and property exceeding $200.00, between January 1, 1973 and February 28, 1978, arising out of the sale of bingo cards to the club for use in various bingo games sponsored by the club, for charitable purposes. The charges accuse Clayton George Nellis, John D. Balderstone, Richard Lewis Bricker and Play-All Ltd.

Previously, charges had been laid against Keith Pierce and Keba Limited, alleging the same conspiracy. Pierce and Keba pleaded guilty to the charges, and the other accused pleaded not guilty. Pierce was sentenced to two years in gaol and Keba was fined $50,000.00. The indictment against the other alleged co-conspirators has not yet come to trial and has been the subject of long and complex preliminary proceedings before the Manitoba Court of Queen's Bench. I have read the transcripts of all of these proceedings.

At the material times Nellis and Bricker were the principals of Play-All Ltd. and Balderstone was its manager. Keith Pierce was the chairman of the Kinsmen Bingo Committee and was a principal in Keba Enterprises Limited.

Play-All Ltd. was the exclusive supplier of bingo cards to the Kinsmen Club. Pierce arranged for his company, Keba, to purchase the bingo cards from Play-All and in turn, sell the cards to the Kinsmen Club at a mark-up, allegedly without the knowledge or consent of either the club or its executive.

In the period from July 1, 1975 to February 8, 1978, both Keba and Pierce made substantial profits on the sale of the cards and on commissions.

The club in general, and its executive in particular, were said to be unaware of these profits and commissions.

Pierce had pretty well run the bingo operation himself, with little or no input or assistance from anybody else in the club. The bingo was highly successful. The club members were well satisfied with the results and were content to let Pierce carry on as he seemed to be doing a competent job. But in early 1978, the fraud was discovered. This resulted in Pierce being relieved of his duties as chairman of the Bingo Committee, and being expelled from the club and the police being called in.

It should be mentioned here that Mr. Bachman, the then chairman of the Licencing Board, was concerned about the high costs revealed in the club's returns to the Board, and pressed for an investigation.

I interviewed the present chairman of the Winnipeg Kinsmen Club Bingo Committee and the two paid employees who handle the daily administration of the bingo.

The club currently conducts a T.V. bingo, using the services of CKY T.V. They had, as well, conducted a newspaper bingo, but discontinued this last year because it was not profitable. The T.V. bingo is now the only "media" bingo operated by the club, and it is profitable.

The club runs the bingo from offices at 359 Johnson Avenue in Winnipeg and employs two persons to service the business. The club sells boxes of envelopes containing six bingo games printed on a single sheet of paper. Each envelope sells for $2.00 retail. The boxes are distributed monthly by the office personnel, either by car or by mail, to approximately 170 retail outlets in the City of Winnipeg, and 140 retail outlets in rural Manitoba. The retailers are largely small drug and convenience stores; some are kiosks in shopping malls.

Customers buy the bingo paper and are then able to play the games in front of their t.v. sets when the bingo is conducted on CKY T.V. each Saturday at 6:30 p.m for one-half hour. Winners phone in to the T.V. station, and mail their winning bingo papers to the club, which remits cheques for the prizes. There is a minimum jackpot of $2,000.00, which is divided equally amongst the winners.

The club operates the bingo through a Committee called The Media Bingo Committee. I was given a copy of their financial statement for the year ending December 31, 1981. In that year the bingo grossed $560,777.00 on the sale of T.V. bingo games and $119,980.00 on the newspaper games. (The latter now being discontinued.) Their net income was $93,191.00, which compared with $72,810.00 in 1980. A more profitable year still is anticipated for 1982 on the basis of sales to date.

The club purchases the bingo papers through Bazaar Novelty in Winnipeg. This paper is printed at Bazaar's plant in Eastern Canada. The club currently pays $13.90 per thousand sheets of paper to Bazaar. In 1981 the price was $13.27 per thousand. In 1981, the total amount paid to Bazaar was approximately $52,000.00. Previously, of course, the club had been buying its paper from Play-All Ltd., but when the fraudulent activities of Mr. Pierce were discovered, the club switched to Bazaar.

The club has been happy with the quality of the product and the service provided by Bazaar. They let the contract to Bazaar on an annual basis, and they endeavour to obtain competitive bids from other qualified suppliers, but to date, they have found Bazaar to be the most satisfactory.

Since the difficulty with Mr. Pierce, the club has put in place what they consider to be tight controls, to prevent a recurrence of the fraud.

The Media Bingo Committee consists of the chairman, the vice-president of projects (a member of the Executive Committee of the club), the club president (ex officio), and six general members. The chairman is rotated every two years so that no one person can be in a position to exert an indefinite control and influence over the Committee. All cheques must be signed by two persons, and larger cheques by at least one member of the club executive, as well as one other person. In this way, the club executive knows and approves of all major expenditures. Audited financial statements are prepared annually, and the auditors spot check the accounts and inventory three or four times each year.

It appears that the Kinsmen Club of Winnipeg Incorporated has reorganized its system and instituted controls to make it less likely that it will be a victim of a fraud similar to that practiced on it by Mr. Pierce. However, I did not ask our accountants to study and evaluate the organization and accounting controls of the club. I understand that they agree the system and controls represent an improvement, assuming these are as represented to us.

The Kinsmen incident is now past history, but its occurrence does raise the larger question of what role, if any, the government should play to ensure that the various lotteries under its jurisdiction are organized and controlled so as to minimize the potential for fraud and other criminal activity. In my view, the government does have a proper function here since the public has a legitimate interest in, and concern that, lottery proceeds, which are for charity, are properly used for that purpose. The Kinsmen incident is an illustration that the government cannot assume that the licencees will invariably put in place reasonable controls to achieve this end. That implies, then, that the government should provide some leadership and guidance to the licencees in this area.

It is suggested that when time and adequate staffing permit, the Board should undertake a study of the organization and internal controls of each of the major ongoing lotteries under its jurisdiction to determine whether they are adequate, and if not, the Board should at least make recommendations for improvement to those licencees. It would probably not be practical to extend such a study beyond some of the major lotteries, but the Board could go further and draw up suitable guidelines to be issued to all lotteries, large and small, setting out appropriate organizational systems and accounting controls which they could be encouraged to adopt.

As an example, our accountants had occasion to draft a set of rules, appended as Schedule"J" , which could be followed by those licencees conducting bingos. These rules are designed to maximize accountability and minimize the opportunities for error and fraud.

Further, the Board should conduct periodic inspections and audits of all major lotteries under its jurisdiction.

Ukrainian Home and Reading Society

At the public hearings, a submission was received from counsel appearing on behalf of approximately "thirty concerned citizens of East Selkirk and district", with respect to the lotteries licencee "Ukrainian Home and Reading Society of East Selkirk in Manitoba, in memory of Iwana Franka", also known as "East Selkirk Hall" and "East Selkirk Community Hall". The submission was that the "East Selkirk Hall", while describing itself as a community hall, had been restricted in membership and refused membership applications of residents in the Selkirk community; that it had prevented interested residents from attending its annual meeting; and that it did not make its financial statements public. The "concerned citizens" believed that the "East Selkirk Hall" was conducting its lotteries activities as a private operator.

We referred the matter to the Lotteries Licencing Board for investigation. The Board did investigate, and reported back to us.

The "interested citizens" group, which is also known as the East Selkirk Recreation Association Inc., has taken over the St. Clement Centennial 1984 Committee and designated a new arena as the official centennial project. It is their feeling that the "East Selkirk Hall" is possessed of large assets and a profitable bingo operation which could be used to fund the centennial project.

The Ukrainian Home and Reading Society exists to operate a facility, namely a clubhouse, for the pleasure and social benefit of its membership on a non-profit basis. Its Charter, granted by the Provincial Government in 1920, states that its purposes are to advance the education of all members or associate members of the society who are Canadians of Ukrainian descent, by the supplying of a library by the society, and by means of lectures and classes. Apparently, the club makes its facilities available on a rental basis to the public for various social events, such as socials, dances, weddings, etc.

The club hall was built in 1922, and was then only one quarter of its present size. It operated on a limited basis until 1963, when it was taken over by the present executive. It then had a total of $68.00 in the bank. Since that time, the premises have been greatly improved, and now are in excellent condition with all modern facilities and conveniences. In 1981, the society received a Provincial Government grant (on the recommendation of the local municipality of St. Clements) in the sum of $13,300.00, which was matched by the society dollar for dollar, for a total of $26,600.00. This money was spent on a 16 ton air-conditioner unit, now located outside the rear of the building.

As far as the Licencing Board was concerned, the society was operating in accordance with its licence, and the regulations. I agree with this conclusion. The society is not a private operator, but a bona fide social and educational club, and as such, does not come within the Inquiry's terms of reference.

It is noted that the "interested citizens" group were not able to obtain any financial information as to the profits and the use of the profits earned by the lotteries carried on by the club, because, of course, the club itself would not disclose this information - a position it was entitled to take - and it is not presently the policy of the Licencing Board to make lottery financial reports available to the public. If the "interested citizens" had access to this information, their concerns might have been somewhat allayed. Public confidence in the legitimacy of bingo operations - indeed all lottery operations - might be considerably enhanced if the public, or members of the public, could at least apply to the Licencing Board for and receive financial information concerning the revenues, expenses, profits and manner of expenditure of profits in relation to all lottery activities.

This is in keeping with the recommendation of the Haig Commission that the Lotteries and Gaming Control Commission should have a public relations division whose responsibility would include "providing public information on the operation of lotteries, the sales of tickets, profits realized, the selling, distribution and management level, the utilization of lottery profits to community organizations, and the distribution of those profits throughout the province on the basis of community interest, community activity and geography."

Bingo and Nevada Revenues and Disbursements of Certain Organizations

It was not part of the Inquiry's mandate to investigate generally revenues received by the various licencees, and the manner in which those revenues were being disbursed, except in areas relating to private operators. However, during the course of the Inquiry, it came to my attention that certain organizations were able to generate substantial revenues from bingo and the sale of break-open tickets, and I thought this information would be of interest to the government and to the public, not for the purpose of singling out any particular licencee for special attention, but because I thought the information raised questions which might be of general application to all licencees.

Again, I emphasize that I did not deliberately set out to investigate these organizations, and I do not suggest that there is anything wrong in their operation. It is simply that, during the course of the Inquiry, I incidentally learned of the statistics concerning these clubs, and this led to some further inquiry.

The Royal Canadian Legion and Army, Navy & Airforce branches and clubs, in the year ended December 31, 1981, received gross revenues from the sale of break-open tickets to their members in the sum of $15,506,000.00 out of a total gross revenue from the sale of all break-open tickets in the province, of

$50,870,000.00 - that is 30.5% of the total; in the same period, their net revenues from this source were $2,803,000.00 out of a total net revenue of $8,860,000.00 - or 31.6% of the total.

The same organizations, in the same period, received $5,400,000.00 in gross revenues from the conduct of bingo games - 34% of the total gross bingo revenue in the province; and, in the same period, received $600,000.00 in net revenues - 24% of the total net revenue from bingos in the province.

The combined results from both break-open ticket sales and bingo were, therefore, in round figures, $20,900,000.00 gross and $3,400,000.00 net.

The Inquiry accountants took a representative sampling of certain branches of the Royal Canadian Legion in an effort to learn their individual net revenues and the manner in which those revenues were disbursed. The results of this study are appended as Schedule "K".

It will be seen that the Legions expended 47.1% of their revenues on their own capital projects and club activities, 3.1% on sports, 9.5% on donations to charities of their own choice, 24.4% on "health and hospital" (donations to hospital and health organizations), 8.9% in donations to other Legions, and 1% on miscellaneous matters.

Another club - not a Legion - which has been conducting a large bingo and Nevada operation, is Le Club La Verendrye.

For the 19 months ended December 31, 1981, their gross revenues from bingo were $455,755.13, and their net income was $15,711.55; in the same period, their gross revenues from the sale of break-open tickets were $1,614,080.00, and their net income from that source was $224,483.27.

Clearly, a large portion of the revenues of the Royal Canadian Legion Branches is expended on their own capital projects and club activities, and the government and the public may want to be assured that these expenditures are appropriate. That would be so not only in relation to the Legions, but in relation to all of the various clubs and organizations which are permitted to conduct lottery activities for charitable purposes.

It is also of interest that the Legions have excess monies not used for their own purposes, which they are able to donate, and have been donating, to other charities, and indeed, to other Legions.

It may well be that the Licencing Board will want to review the revenues and disbursements of all licencees - or at least the major licencees - to determine whether their experience has been similiar to that of these branches of the Royal Canadian Legion and Le Club La Verendrye, and to ensure that the lottery proceeds are being used in the best possible ways. In many cases, these organizations are selling the tickets mainly to their own members and so the principal revenue source is their membership. However, the Board is still required to ensure that the funds are being devoted to charitable purposes.

Social Clubs

The City of Winnipeg Police Department drew to the attention of the Inquiry that there are now a fair number of "social" clubs - estimated at some 30 to 40 - carrying on gaming activities in the City. The clubs usually accomodate 15 to 20 persons, and in most of them cards are played for gambling purposes, although, in the oriental clubs, for example, the Chinese and the Filipino clubs, the game of Mah-Jong is played. The police have informed us that they have received numerous complaints from relatives of individuals alleged to be losing money in the clubs.

The police acknowledge that many of the clubs are, indeed, bona fide social clubs, but they suspect that others are not and are operated by one, or a limited number of individuals for their own private gain and profit. If so, the latter are "private operators", and as such they come within the terms of this Inquiry.

This matter was referred to the Inquiry only recently and, in view of time constraints, we did not conduct an investigation to determine the extent to which, if any, these clubs are operated by and for the benefit of private persons, or the nature and extent of the benefits enjoyed by them. Nevertheless, in my view, the problem requires to be drawn to the attention of the public and the government and deserves some discussion in this report.

Section 185 of the Criminal Code of Canada provides that everyone who keeps a common gaming house, or common betting house, is guilty of an indictable offence.

A "common gaming house" is a place that is kept for gain, to which persons resort for the purpose of playing games, or is kept or used for the purpose of playing games in which a bank is kept by one or more (but not all) of the players, in which all or any portion of the bets on or proceeds from a game is paid directly or indirectly to the keeper, in which directly or indirectly a fee is charged to or paid by the players for the privilege of playing the games or using gaming equipment, or in which the chances of winning are not equally favourable to all persons who play the game.

A "game" is defined to mean a game of chance or mixed chance and skill. This would certainly include card games. It may therefore be seen that the essence of the offence is gain,and,where that is not present, no offence can occur.

Section 179 (2) of the Code exempts an incorporated bona fide social club or branch thereof from the general prohibition against keeping a common gaming house, even if the club is keeping a portion of the bets on or proceeds from the games, and even if it is charging a fee to participate in the games, provided that the club has a licence from the Attorney-General of the province in which the club is situate.

As far as I am aware, the only province which licences bona fide incorporated social clubs under section 179 (2) of the Code is the Province of British Columbia. The Province of Manitoba does not licence them. Therefore, in Manitoba, incorporated bona fide social clubs may permit gambling in their premises only if the clubs do not infringe the Code.

Leaving aside the question of whether they are operating in contravention of the Code, numerous social clubs in the City of Winnipeg, devoted to carrying on gaming activities, may give rise to a social problem if it is correct that a significant number of club members or users, are losing, or are in a position to lose, large sums of money gambling. As mentioned, the police have received complaints. On the other hand, possibly any legalized gambling activity, including the racetrack, the casinos and the bingo halls, present the same problem. It may be that the Department of Attorney-General will want to consider full investigations of those clubs suspected to be in breach of the Code, and if warranted, launch prosecutions.

However, as a response to a perceived social problem, these prosecutions could only be effective as against those clubs actually contravening the Code in the sense that they were carrying on gaming activities essentially for gain. Nevertheless, if some of the social clubs are not only operated for gain, but are providing substantial gains without any control to private operators, that fact may be of concern to the government and they may wish to address it.

One way to approach the problem would be to select for prosecution those persons suspected of operating "social" clubs, not for bona fide purposes, but for their own gain and profit.

Another approach would be for the province to follow the lead of the Province of British Columbia and, for control purposes, licence incorporated social clubs for gaming purposes under section 179 (2) of the Code. This, incidentally, was the recommendation of the Haig Commission, which suggested that the province consider the licencing of social clubs, simply for the purpose of ensuring that they are legitimate social organizations, having a bona fide membership gathering for some social purpose, and who, only incidentally to that purpose, conduct or permit the conduct of card games for the pleasure and recreation of the members or guests of the members.

Such a policy would recognize that it is a fact of life that there are many genuine social organizations which like to provide facilities for their members to play cards, and to charge a modest fee for doing so, in order to defray expenses. The very fact that parliament has provided a possible exemption for such clubs, subject to the discretion of the local Attorney-General, suggests that our legislators did not regard them as necessarily being evil or as creating serious social problems.

As well, such a policy might assist in establishing reasonable standards and limits for social clubs desiring to sponsor gaming activities, so that only those persons exceeding those standards and limits, and presumably those abusing the system most flagrantly, for their own gain and profit, would be subject to prosecution. However, for the system to be truly effective, the Department of Attorney-General would have to be determined to prosecute where that was indicated.

The practical problem would be to determine which of the existing social clubs are operating in possible contravention of the Code, and then to require them to incorporate and take out licences. Doubtless, the police could be of some assistance in this regard.

As far as the incorporation of new and additional social clubs is concerned, the Corporations Branch could require the applicants for incorporation to satisfy it that the clubs are not to be used for gaming purposes at all, or if they are, that they will be operating in compliance with the Code. Naturally, local police departments should be notified of the incorporation, and this is already being done by the Corporations Branch in this province. Any club proposing to carry on gaming activities in a manner not sanctioned by the Code could then be required to obtain the appropriate licence from the provincial gaming authorities.

It is suggested that the whole thrust of the incorporation and licencing policy with respect to social clubs, should be to:

1) ensure that the clubs are, indeed, bona fide social clubs;
2) control and limit the number of such clubs to be permitted in any given area;
3) control the manner of operation of such clubs, and in particular, the destination of the revenues thereof.

The province could adopt a fairly strict definition of a "bona fide" social club, with a view to preventing the incorporation of clubs having as their primary object, gaming, as distinct from other, purely social activities. There could be a requirement that before incorporation and a licence is granted to a club it must have been in continuous operation for a reasonable period of time. To attempt to ensure that its prime purpose is other than gaming, permissible prime objects should be spelled out, such as purposes of a social, athletic, recreational, fratarnal, etc. nature; in order to eliminate the commercial element there should be a requirement that it is not to be operated primarily for pecuniary gain.

The conditions of the licence could spell out such requirements as: all revenue derived from the premises shall remain revenue of the club, and not an individual; no member, director or officer of a club shall receive any form of remuneration, other than wages as manager or employee; no keeper of a club shall rent out or lease out any games; only members and a limited number of guests shall be entitled to enter the premises; an annual report, including an audited financial statement shall be filed with the licencing authorities; up to date records of members, officers and directors shall be maintained; only the fee stipulated in the licence may be charged to participate in games; only the specific types of card games set out in the licence may be played at the clubs; persons authorized by the gaming authorities shall be permitted to enter the premises at any time to inspect all books of account and records.

The licencing policy and rules issued by the Attorney-General of British Columbia with respect to social clubs are very complete and might be used as a model and a guide.

Staffing of the Lotteries and Gaming Control Commission

If the recommendations contained in this report are followed, there will be greater work and responsibility for the Manitoba Lotteries and Gaming Control Commission, or its successor body.

Qualified accountants and auditors will be required to examine and advise upon, for example, financial material and budgets submitted by lottery ticket promoters and applicants for licences, and internal accounting controls of licencees and private operators, and to conduct audits of licencees and private operators.

Trained inspectors will be required to check upon and ensure the proper conduct of games and games personnel, at bingos and casinos, and to conduct checks of gaming equipment used thereat.

Presently, the Commission has only one accountant on its staff and would require additional persons having the necessary expertise to be able to examine and make recommendations regarding financial material and controls.

There is presently no person employed by the Commission capable of carrying out a meaningful inspection of the procedures and the conduct of games personnel at casinos; nor is there any person presently employed by the Commission, who is capable of carrying out a proper inspection of gaming equipment; nor is there any person, presently employed by the Commission capable of judging the skill and competence of games personnel and administering tests to them for licencing purposes.

All of these additional personnel will be needed. The additional staff and assistance can be financed, if needed, by an increase in licence fees. However, I am advised that the current fees provide substantially more than the amounts presently required for administrative costs, and that the excess is now simply paid in to general provincial revenue.

Respectfully submitted.

Commissioner

APPENDIX

SCHEDULE "A"	1981 Operating Results of Activities under the Control of Manitoba Lotteries & Gaming Control Commission and Gaming Licencing Board
SCHEDULE "B"	Thadeus Ltd. Expense Budget (The Royal Canadian Legion Manitoba and Northwestern & Ontario Command)
SCHEDULE "C"	Thadeus Ltd. Expense Budget (St. Paul's High School)
SCHEDULE "D"	Break-open Tickets - Comparison of Operating Results (1977 - 1981)
SCHEDULE "E"	Nevada Break-open Schedule of Cash Distribution Per Box
SCHEDULE "F"	Break-open Tickets St. Boniface General Hospital Research Foundation Inc. (Summary of Boxes Sold by Quarter for the Year Ending December 31, 1982)
SCHEDULE "G"	Bingos - Comparison of Operating Results for 1977 - 1981
SCHEDULE "H"	Casinos - Comparison of Operating Results (1977 - 1981)
SCHEDULE "I"	Casino Equipment Suppliers - Comparison of Revenue and Expenses Over a Twelve Month Period (1981 - 1982)
SCHEDULE "J"	Manitoba Lotteries & Gaming Licencing Board Suggested Terms and Conditions for the Conduct and Operations of a Bingo Operation in Manitoba (Commercial and Larger Community Bingos)
SCHEDULE "K"	Royal Canadian Legions - A Representative Sample of the Disbursement of Net Revenues from Bingo and Nevada Operations Earned in 1981

SCHEDULE "A"

ries	%	Bingo	%	Casino	%	Other	%	Total	%
00,000	100	$16,000,000	100	$10,400,000 (2)	100	$3,450,000	100	$111,600,000	100
00,000	45	11,350,000	71	7,300,000	70	1,600,000	46	71,500,000	64
00,000	55	4,650,000	29	3,100,000	30	1,850,000	54	40,100,000	36
00,000 (1)	18	1,900,000	12	1,100,000	11	450,000	13	12,200,000	11
00,000	12	700,000	4	150,000	1	-	(3) -	6,050,000	5
00.	30	2,600,000	16	1,250,000	12	450,000	13	18,250,000	16
00,000	25	$ 2,050,000	13	$ 1,850,000	18	$1,400,000	41	$ 21,850,000	20

1981 OPERATING RESULTS OF ACTIVITIES UNDER THE CONTROL OF MANITOBA LOTTERIES AND GAMING CONTROL COMMISSION AND GAMING LICENSING BOARD

	Breakopen	%	Lott
Gross receipts	$50,850,000	100	$30,9
Prizes	37,350,000	74	13,9
Net receipts	13,500,000	26	17,0
Expenses, including cost of tickets	3,100,000	6	5,5
Commissions and payments to retailers, distributors, hotels and private operators	1,550,000	3	3,8
	4,650,000	9	9,3
Net profits for charities and community organizations	$ 8,850,000	17	$ 7,7

(1) Incurred by Manitoba Lotteries and Gaming Control Commission, Western Lotteries - Manitoba Distributor Inc., and Western Canada Lottery Foundation.
(2) An estimate of the total money bet.
(3) Included in expesnes.
(4) All amounts are rounded to the closest $50,000.

SCHEDULE "B"

THADEUS LTD.

THE ROYAL CANADIAN LEGION-MANITOBA AND NORTHWESTERN ONTARIO COMMAND

BUDGET FOR THE YEAR ENDING MARCH 31st, 1983

Management Fee Charge - John T. Puchniak	$12,000.00
Wages	21,200.00
Operating Expenses	20,710.00
	$53,910.00
ADD: Charge for Paying Bills, Arranging Financing, Accounting For Expenditures, etc. - 9%	4,851.90
Annual Budget	$58,761.90
Monthly Budget	$ 4,896.83

SCHEDULE "C"

THADEUS LTD.

ST. PAUL'S HIGH SCHOOL BUDGET - FOR YEAR

APRIL 1st, 1982 to MARCH 31st, 1983

Management Fees - J.T. Puchniak	$36,000.00
Wages	51,360.00
Operating Expenses	46,590.00
	133,950.00
Charge for Paying Bills, Arranging Financing, Accounting for Expenditures, Etc. 9%	12,055.00
	$146,005.00
Monthly	$ 12,167.00

SCHEDULE "D"

BREAKOPEN TICKETS

COMPARISON OF OPERATING RESULTS

	1977	1978	1979	1980	1981
Hotels:					
Gross receipts					$ 6,140,000
Prizes					4,720,000
Expenses					320,000
Hotels' gross profits					610,000
Profit to St. Boniface Hospital					$ 490,000
Other:					
Gross receipts	$2,080,000	$7,360,000	$13,370,000	$27,980,000	$44,730,000
Prizes	1,500,000	5,370,000	9,630,000	20,450,000	32,630,000
Expenses	90,000	370,000	800,000	2,090,000	3,730,000
Profit	$ 490,000	$1,620,000	$ 2,940,000	$ 5,440,000	$ 8,370,000
Total:					
Gross receipts	$2,080,000	$7,360,000	$13,370,000	$27,980,000	$50,870,000
Prizes	1,500,000	5,370,000	9,630,000	20,450,000	37,350,000
Expenses	90,000	370,000	800,000	2,090,000	4,050,000
Hotels' gross profits					610,000
Profit	$ 490,000	$1,620,000	$ 2,940,000	$ 5,440,000	$ 8,860,000
Number of licenses	79	264	551	599	1,073
Licensing fees (included in expenses)	$ 15,000	$ 54,000	$ 96,000	$ 307,000	$ 750,000

SCHEDULE "E"

NEVADA "BREAK-OPEN"

Schedule of Cash Distribution Per Box

	(A) 2080 tickets	%	(B) 2184 tickets	%
Gross sales @ .50	$ 1,040.00	100.0	$ 1,092.00	100.0
Prize payout	800.00	76.9	800.00	73.3
	240.00		292.00	
Hotel retention (10% of gross sales)	104.00	10.0	109.20	10.0
	136.00		182.80	
Distributors cost (including 5% PST)	36.75	3.6	47.25	4.3
	99.25		135.55	
2% license fee paid to the Province of Manitoba (2% x $800 prizes)	16.00	1.5	16.00	1.5
	$ 83.25	8.0	$ 119.55	10.9
		100.0		100.0

(A) Initial series sold under Research Foundation license.

(B) As of February 1, 1982 series sold under Research Foundation license.

SCHEDULE "F"

Nevadas

St. Boniface General Hospital Research Foundation Inc.

Summary of Boxes Sold by Quarter
For the Year Ending December 31, 1982

	Boxes	Fee*
January - March 1982	5,590	89,440
April - June 1982	5,147	82,352
July - September 1982	4,072	65,152
October - December 1982	4,056	64,896
Total	18,865	301,840

*License fee is based on $16.00 per box.

Lic. #	Location	Lic. Fee Paid	Units		
			Old	New	Total
6218	Aberdeen		30	120	150
6339	Albion Hotel (PLP)		12	94	106
6217	Airport Hotel		24	126	150
6276	Alexandra Hotel (Virden)		24	372	396
6271	Altona		6	8	14
6324	Arlington Hotel		12	48	60
6272	Baldur		6	42	48
6605	Barclay House, LaRiviere		6	12	18
6273	Beausejour		18	54	72
6219	Bell Hotel		54	192	246
6334	Birtle			75	75
6531	Birchwood Motor Hotel			6	6
8189	Boissevain			2	2
6284	Boulevard Hotel, Dauphin			15	15
6274	Bowsman		6	6	12
6392	Brooklands		36	462	498
6573	Burkes - Morris		6	6	12
6374	Burntwood		18	234	252
8188	Cambridge			20	20
6221	Canadiana Motor Hotel		36	102	138
6279	Carman Motor Hotel		6	24	30
6308	Casey's Motor Inn		36	54	90
6377	Central Hotel, Virden		12	72	84
8184	Central Inn, Russell			12	12
6223	Chalet Hotel		18	72	90
6224	Charleswood Motor Hotel		30	234	264
8292	Charter House			6	6
6408	Clarendon			27	27
6325	Colonial Inn, Morris		6	36	42
6353	Commercial Hotel, St. Claude		18	33	51
6465	Commercial Hotel, Dauphin			2	2
6225	Commercial Hotel, Winnipeg			36	36
6226	Concord Hotel		30	120	150
8112	Continental Motor Inn			9	9
6600	Cypress Motor Inn			2	2
6227	Dakota Motor Hotel		72	120	192
6465	Dauphin Community Inn		4	47	51

Lic. #	Location	Lic. Fee Paid	Units Old	Units New	Units Total
6508	Dawson Bay Hotel, MaFeking				
6311	Dawson Hotel, Lorette		18	18	36
6285	Deloraine Motor Hotel		6	42	48
6268	Downs Motor Inn		6	12	18
6360	Driftwood Hotel		18	126	144
6286	Elie Hotel			90	90
6287	Elkhorn Motor Hotel		3	15	18
8201	Elma Hotel		6	66	72
8191	Elm Creek			2	2
6288	Emerson Inn			3	3
6229	Empress Hotel		12	70	82
6289	Eriksdale Hotel		54	88	142
6307	Erin Inn, Killarney		6	6	12
6291	Fisher Branch Hotel Corp.		2	5	7
6230	Fort Garry Hotel			6	6
6231	Garrick Hotel			6	6
6530	Gateway Hotel, The Pas		36	198	234
6232	Gay Cavalier Hotel			12	12
8200	Gimli Hotel		42	228	270
6296	Gladstone Hotel			36	36
8199	Glenboro			22	22
6233	Golden Oak Motor Inn			4	4
6398	Curtis Gordon Motor Hotel		12		12
6298	Grahamdale Hotel		108	618	726
6234	Grant Motor Inn			33	33
6235	Green Brier Inn		6	6	12
6338	Happy Wanderer Hotel (Plum Coulee)		6	78	84
6409	Hamilton Hotel, Neepawa		6	27	33
6306	Hillside Inn, Inwood			6	6
5303	Hodgson		4	13	17
6410	Holiday Inn, Downtown			6	6
6560	Home Hotel, Boissevain		18	36	54
6304	Ile des Chenes,Hotel			12	12
8187	International Inn		6	48	54
6277	Keystone Inn, Brandon			12	12
6468	Kildonan Motor Hotel		24	90	114
6282	Kings Hotel (Dauphin)		18	72	90
			6	129	135

Lic. #	Location	Lic. Fee Paid	Units Old	 New	 Total
6236	Kings Hotel, Higgins		42	360	402
6237	Kirkfield		24	180	204
6309	Lakeview Hotel, Lac du Bonnet		6	36	42
8196	Labroquerie			8	8
6299	La Salle Hotel, Grand Rapids		4	12	16
6561	La Salle Hotel, Winnipeg		6	510	516
6310	Laurie Hotel		6	36	42
6467	Leisure Inn, Newdale			12	12
6238	Leland Hotel		9	30	39
6462	Lebau Inn Hotel		3	72	75
6411	Lockport Hotel		6	24	30
6358	Lord Selkirk Hotel, Selkirk		6	54	60
6312	Lundar Motor Hotel		24	108	132
6314	McCreary Chalet			36	36
6240	McLaren Hotel		72	1,413	1,485
6315	McMumm Motor Inn			36	36
6313	MacGregor Hotel		12	42	54
6241	Mall Hotel		36	264	300
8194	Manitou			12	12
6269	Manur Hotel			1	1
8186	Maniwin Hotel			6	6
6317	Marchand Hotel		3	3	6
6602	Mariapolis Motor Hotel		6		6
6242	Market Inn		12	114	126
6415	Maryland Hotel		18	78	96
6318	Melita Inn		2	20	22
6359	Merchants, Selkirk		30	264	294
6320	Manitonas, Motor Hotel		6	26	32
6321	Minioter			21	21
6558	Mennedosa Inn		6	36	42
6599	Mount Royal Hotel		24	18	42
6372	Mystery Lake Hotel, Thompson			18	18
6369	New Avenue Hotel, The Pas		12	126	138
6571	New Occidental Hotel		6	51	57
6245	Nicolette Inn		36	283	319
6200	Nordic Inn, Erickson		3	51	54
6246	Norlander Hotel		6	30	36

.ic. #	Location	Lic. Fee Paid	Units		
			Old	New	Total
6316	North Star Hotel, Manigotogan			48	48
6281	Northern Inn Hotel, Carberry			12	12
6123	Norwood		47	591	638
6328	Oaklake Hotel		6	18	24
6248	Oxford		36	162	198
6249	Pandora Inn		12	6	18
6250	Park West Hotel			6	6
6525	Parkview Inn, Hadashville		6	36	42
6604	Patricia Hotel		60	468	528
6251	Pembina Motor Hotel		18	144	162
6333	Pinawa Motor Inn		6	26	32
6335	Pine River			6	6
8262	Pinewood			6	6
6336	Pipestone Hotel		6	36	42
6252	Polo Park Inn		3	26	29
6340	Portage Hotel (PLP)		18	24	42
6244	Princess Hotel		18	180	198
6276	Redwood Travelodge (Brandon)		1		1
5342	Reston Motor Hotel		6	48	54
5343	Richer Motor Hotel		6	2	8
5413	Rivercrest Motor Hotel		6	42	48
5344	Rivers Inn		6	48	54
5345	Riverside Motor Inn, Riverton		6	12	18
5347	Roblin Motor Inn		6	240	246
5406	Rockwood Motor Inn, Stonewall			33	33
5349	Rocketon Hotel		6	78	84
5412	Royal George Hotel		42	258	300
5303	Royal Hotel, Hodgson		12	36	48
5280	Ryall Hotel, Carman		12	42	54
	Russell Motor Inn			6	6
5421	San Antonio Hotel, Bissett		2	6	8
3181	San Clara Hotel, Russell			18	18
5346	Sandy Bar Hotel, Riverton			2	2
5357	Sandy Lake Hotel		12	32	44
5348	Saturn Motor Hotel, Roblin		72	126	198
5350	St. Adolphe Inn		12	48	60
5351	St. Agathe Hotel		12	12	24

Lic. #	Location	Lic. Fee Paid	Units Old	Units New	Units Total
8133	St. Boniface Hotel			48	48
6242	St. Charles Hotel		6	12	18
6354	St. Claude Hotel			18	18
6253	St. James			13	13
6555	St. Jean Baptiste Hotel			24	24
8193	St. Leon			4	4
6355	St. Malo Hotel		6	102	108
6254	St. Norbert Hotel		30	342	372
6356	Ste. Rose du Lac Hotel			126	126
6255	St. Vital		15	112	127
6378	Silverleaf Hotel, Wabowden		18	204	222
6362	Sommerset Hotel		6	68	74
6363	Souris Motor Inn (Robert Motor Inn)		12	117	129
6331	Southgate Hotel, Onanole		6		6
6619	Sprague Hotel			6	6
6364	Starbuck Hotel			3	3
6257	Stock Exchange Hotel		12	42	54
6365	Stoney Mountain Hotel			39	39
6603	Swan Lake Hotel		6	12	18
6268	Teulon Motor Hotel		6	60	66
6373	Thompson Inn		72	792	864
6562	Tourist Hotel, Fraserwood		6	48	54
6283	Tower Hotel, Dauphin			7	7
6573	Travellers Inn, Morden		18	90	108
6414	Travelodge, Winnipeg East		6	42	48
6258	Tuxedo Inn			6	6
6574	Tyndall, Motor Hotel		12	66	78
6366	Valley Hotel, Swan River		12	60	72
6375	Vasser Hotel			1	1
6259	Village Inn		6	54	60
6326	Vivian Hotel, Neepawa		12	78	90
6261	Westbrook Inn			270	270
6491	Westin Inn		6	12	18
6262	Westminister Hotel		12	144	156
6509	Whitewater Inn Leaf Rapids		6	66	72
6263	Windsor Hotel		12	66	78
6264	Windsorian Hotel		36	90	126

		Lic. Fee	Units		
Lic. #	Location	Paid	Old	New	Total
6380	Winkler Motor Inn		12	60	72
6265	Winnipeg Hotel		18	144	162
6491	Winnipeg Inn (see 6491)		6		6
6563	Winnipeg Beach Hotel		18	126	144
6266	Woodline Hotel		12	70	82
6463	Woodland Hotel, Warren			12	12
6267	Yale Hotel		72	474	546
6301	Gretna, Queens Hotel		2	7	9
8204	Sperling			1	1
	TOTAL	$301,840	2,309	16,556	18,865

BINGOS SCHEDULE "G"

COMPARISON OF OPERATING RESULTS FOR THE CALENDAR YEAR

	1977	1978	1979	1980	1981
Winnipeg community bingos:					
Gross receipts	$ 9,792,000	$10,546,000	$10,838,000	$10,601,000	$11,918,000
Prizes	6,490,000	7,297,000	7,617,000	7,585,000	8,778,000
Expenses	1,613,000	1,627,000	1,644,000	1,702,000	1,830,000
Profit	$ 1,689,000	$ 1,622,000	$ 1,577,000	$ 1,314,000	$ 1,310,000
Rural bingos:					
Gross receipts	$ 425,000	$ 950,000	$ 1,788,000	$ 2,580,000	$ 3,106,000
Prizes	264,000	603,000	1,151,000	1,671,000	1,997,000
Expenses	66,000	164,000	261,000	545,000	487,000
Profit	$ 95,000	$ 183,000	$ 376,000	$ 364,000	$ 622,000
Bingos at Buffalo Bingo:					
Gross receipts					$ 1,004,000
Prizes					599,000
Expenses					283,000
Profit					$ 122,000
Total:					
Gross receipts	$10,217,000	$11,496,000	$12,626,000	$13,181,000	$16,028,000
Prizes	6,754,000	7,900,000	8,768,000	9,256,000	11,374,000
Expenses	1,679,000	1,791,000	1,905,000	2,247,000	2,600,000
Profit	$ 1,784,000	$ 1,805,000	$ 1,953,000	$ 1,678,000	$ 2,054,000
Number of organizations reporting financial results (1):					
Winnipeg community bingos	85	114	121	118	139
Rural bingos	21	39	57	64	85
Bingos at Buffalo Bingo					30
	106	153	178	182	254
Licenses issued in the year (1)	135	171	183	205	271

(1) Differences are primarily of a timing nature, i.e., if a license was issued to run from October 1, 1977 to September 30, 1978, the license was issued in 1977 but we have included the results of the bingo in 1978. Other differences arise as certain organizations utilize more than one license while others never hold a bingo.

SCHEDULE "H"

CASINOS

COMPARISON OF OPERATING RESULTS

	1977	1978	1979	1980	1981
Winnipeg:					
Red River Exhibition-					
Gross receipts	$265,869	$283,190	$ 294,552	$ 258,765	$ 347,293
Expenses	152,490	163,235	154,490	147,212	138,208
Profit	$113,379	$119,955	$ 140,062	$ 111,553	$ 209,085
Festival du Voyageur-					
Gross receipts	$100,220	$197,334	$ 198,373	$ 299,547	$ 326,898
Expenses	49,475	109,899	95,540	115,918	144,076
Profit	$ 50,745	$ 87,435	$ 102,833	$ 183,629	$ 182,822
Other-					
Number held during the year		3	4	7	11
Gross receipts		$391,945	$ 647,823	$1,410,733	$2,356,594
Expenses		164,502	319,528	596,267	944,482
Profit		$227,443	$ 328,295	$ 814,466	$1,412,112
Average profit per casino		$ 75,814	$ 82,074	$ 116,352	$ 128,374
Rural:					
Number held during the year	1	5	3	10	9
Gross receipts	$ 15,071	$ 51,045	$ 51,965	$ 108,085	$ 77,883
Expenses	9,642	38,739	33,310	70,313	30,946
Profit	$ 5,429	$ 12,306	$ 18,655	$ 37,772	$ 46,937
Average profit per casino	$ 5,429	$ 2,461	$ 6,218	$ 3,777	$ 5,215
Total:					
Gross receipts	$381,160	$923,514	$1,192,713	$2,077,130	$3,108,668
Expenses	211,607	476,375	602,868	929,710	1,257,712
Profit	$169,553	$447,139	$ 589,845	$1,147,420	$1,850,956
Licensing fees	$ 4,000	$ 9,000	$ 12,000	$ 31,000	$ 62,000

SCHEDULE "I"

[illegible]

CASINO EQUIPMENT SUPPLIERS

COMPARISON OF REVENUE AND EXPENSES OVER A 12 MONTH FISCAL PERIOD ENDING IN 1982

	(86 Casino Days) Red River Exhibition	(43 Casino Days) Club Casino
Revenue:		
Equipment rental charges	$79,816	$ 42,417
Expenses:		
Set-up and take-down charges	27,887 (1)	6,286
Equipment rental	9,242	5,914
Equipment maintenance	3,278	2,858
Games supplies	8,274 (2)	2,160
Insurance	-)	2,266
Management fees	-)	2,000
Legal and accounting	-)(3)	1,930
Advertising and promotion	-)	3,612
Office and telephone	1,053	1,356
	49,734	28,382
Excess of revenue over expenses	$30,082	$ 14,035
Margin	38%	33%
Approximate capital invested	$84,600	$109,700
Return on capital	36%	13%
Average revenue per Casino Day	$ 928	$ 986
Average expense per Casino Day	578	660
Average profit per Casino Day	$ 350	$ 326
Most current rates per Casino Day being charged:	$ 300	$ 300

Notes:

1. Red River employs 2 full time personnel to set-up, maintain and take down the equipment. Club Casino employs individuals for specific casinos on an "as needed" basis.

2. Purchase of 45 gross of playing cards.

3. No allocation of these types of expenses was made to the equipment division of Red River Exhibition Association.

SCHEDULE "J"

MANITOBA LOTTERIES AND GAMING LICENSING BOARD (BOARD) SUGGESTED TERMS AND CONDITIONS FOR THE CONDUCT AND OPERATIONS OF A BINGO OPERATION IN MANITOBA

COMMERCIAL AND LARGER COMMUNITY BINGOS

A. General Manager

The General Manager is responsible for the following:

1. Obtaining the licence from the Board for the bingo operation.
2. Hiring and supervising all staff and volunteers involved in a bingo operation.
3. He must ensure completion of and submission of quarterly financial reports to the Board. A final financial report must be submitted to the Board within sixty (60) days after the expiry date of the licence.
4. He or an assistant previously approved by the Board shall be present at all times while the bingo operations are taking place to ensure that all conditions of the licence are being met. All records relating to the bingo operation must be retained for at least one year after the expiry date of the licence.
5. He should review the daily receipts and disbursements recorded by the Accountant for reasonableness, accuracy and completeness.
6. Depositing, on a daily basis, the net profit of the bingo operation. All funds from the bingo operation should be deposited in a separate bank account.
7. He should ensure that the bingo bank account is reconciled on a monthly basis.
8. The General Manager or an assistant previously approved by the Board should be one of two required authorized cheque signers. In cases where the General Manager or the assistant is required to pre-sign a blank cheque, he should examine the cancelled cheque and supporting documents to ensure the propriety of the payment.
9. He should ensure that administrative expenses, excluding rent, do not exceed 10% of gross receipts (excluding TV Bingo).
10. Notifying the Board immediately of any irregularity occurring in the bingo operation.
11. The General Manager and staff are prohibited from participating in the bingo games.

SCHEDULE "K"

LEGIONS

OPERATIONS EARNED IN 1981 WERE DISBURSED
ATIVE SAMPLE

		Disbursements				
lub vities	Sports	Donations Charities	Health Hospital	Other Legions	Other	Total
670.31	$ 150.00	$ 5,276.25	$ 2,090.84	$67,325.60 (1)	$ -	$273,472.23
837.55	7,350.00	1,350.00	585.38	436.00	2,301.00	45,248.85
099.28	1,775.00	4,895.00	4,137.50	-	250.00	19,156.78
361.83	535.71	5,118.24	6,615.00	240.00	665.00	48,150.00
847.80	6,660.00	24,460.50	104,574.12	10,966.65 (2)	3,475.12	169,719.19
575.50	662.39	6,305.38	275.00		902.66	25,666.08
[illegible]59	8,208.95	13,745.30	39,305.16	60.00		121,436.00
263.00		5,006.97	2,876.16			14,146.13
765.00	1,329.50	9,457.91	1,447.88		200.00	46,147.47
028.00	1,329.50	14,464.88	4,324.04	-	200.00	60,293.60
635.15	700.00	9,170.84	20,363.15		1,298.00	128,169.14
134.01	$27,371.55	$84,786.39	$182,270.19	$79,028.25	$9,091.78	$891,311.87
.8%	3.1%	9.5%	20.4%	8.9%	1.0%	100%

ROYAL CANA

HOW NET REVENUES FROM BINGO AND NEVADA
A REPRESEN

Legion Name	Net Revenues Nevada and Bingo	Capital Project	Act
Norwood St. Boniface 43	$209,993.92	$162,959.23	$ 3
Transcona 7	not disclosed	30,388.92	
Prince Edward 81	16,880.42	6,000.00	
West Kildonan 30	75,022.93	5,614.22	2
St. James 4	156,072.00	1,735.00	1
Charleswood #100	27,056.97	11,947.15	
Brooklands and Weston 2	137,620.53	18,038.00	4
Elmwood 9 - Bingo	17,916.13		
- Nevada	46,278.50	31,947.18	
	64,194.63	31,947.18	
Ukrainian Canadian Vets 141	100,827.01	55,000.00	4
	$787,668.41	$323,629.70	$18
		36.3%	

1. Includes over $60,000 for air conditioners for Legion Towers.
2. Includes $5,000 each to both Beausejour and LaVerendrye Legions.

MANITOBA LOTTERIES AND GAMING LICENSING BOARD (BOARD)
SUGGESTED TERMS AND CONDITIONS FOR THE CONDUCT AND OPERATIONS OF A BINGO OPERATION IN MANITOBA

B. Accountant

The accountant is responsible for the following:

1. The collection of all cash trays from the Cashier, counting the cash and recording the revenue. Revenue should be categorized by the types of game being played.

2. Controls should be in place so that the Accountant can determine cash receipts prior to counting the cash. The Accountant should prepare a worksheet reconciling the predetermined revenue to actual revenue. Any discrepancies should be followed up.

3. Obtaining the worksheet prepared by the Paymaster for prizes paid out. Profits should be recorded along with the incidental expenses of the bingo operation, including compensation for volunteer help.

4. Obtaining the worksheet prepared by the caller listing all bingos called. This should be compared to the Paymaster's worksheet to verify all prizes paid out.

5. Preparing the bank deposit slip and ensuring that the revenue and disbursements recorded agree to the deposited amount.

C. Cashiers

1. Cashiers are volunteers to be provided by the licensee.

2. Cashiers are individually responsible for all money in their care.

3. The Cashier is responsible for recording for each player the number of the bingo cards purchased for each type of game played. This record, which may be in a form of paper, chips or tickets, is maintained by the player and is periodically checked by the Checkers to ensure the player is not playing with more cards than were paid for.

MANITOBA LOTTERIES AND GAMING LICENSING BOARD (BOARD) SUGGESTED TERMS AND CONDITIONS FOR THE CONDUCT AND OPERATIONS OF A BINGO OPERATION IN MANITOBA

D. Caller

The caller is responsible for the following:

1. Calling out all bingo numbers and comparing the "Bingo Card" to the master control listing, to ensure its correctness.
2. Preparing a worksheet listing the number of winners for each game. This worksheet is later compared by the Accountant to the Paymaster's worksheet to ensure the propriety of prizes paid out.
3. The Caller must ensure that the bingo machine, where applicable, is not shut off until the bingo is verified.

E. Checker

1. The Checker is responsible for ensuring that all bingo cards being played have been paid for.
2. In the event of a bingo, the Checker must show the bingo card to an independent person to ensure that no collusion is taking place. The Checker then calls the numbers out to the caller to verify the bingo.
3. The Checker then receives the prize money from the Paymaster and gives it to the winner. The winners should sign for all prize money received and for prizes in excess of $200, winners should print their name and address.

F. Paymaster

1. The Paymaster is responsible for paying out all prize money to the Checkers. The prize money is determined by obtaining the number of winners from the Caller and dividing the prize money equally between the winners.
2. The Paymaster is responsible for preparing a worksheet listing the number of winners and prize money paid out. This listing is forwarded to the Accountant at the end of the bingo.
3. Prizes greater than $200 should, on request, be paid by cheque so that players do not have to leave the hall with significant amounts of cash.

G. Gaming Equipment

Bingo machines used must be maintained in good working condition and inspected by the Board periodically.

MANITOBA LOTTERIES AND GAMING LICENSING BOARD (BOARD)
SUGGESTED TERMS AND CONDITIONS FOR THE CONDUCT AND OPERATIONS OF A BINGO OPERATION IN MANITOBA

H. Licence Fee

A licence fee of two percent (2%) of budgeted bingo prize money to be paid out shall be paid monthly in advance of the prize money to be awarded the following month. After the final report is filed with the Lotteries Commission any variances between budgeted and actual will be settled.

I. Cashing of Cheques

Granting of credit or cashing of cheques of any form is prohibited at any bingo in Manitoba. No persons assisting at a bingo operation shall cash cheques from players at a bingo operation in Manitoba.

J. Proceeds and Expenses

1. The proceeds of a bingo operation must be spent on the charitable or religious objectives specified in the application as approved by the Board and within the Province of Manitoba only.
2. The proceeds realized after payment of the expenses must be left in the bingo operations bank account until spent upon the authorized charitable or religious objectives.
3. Copies of cancelled cheques or receipts verifying disposition of proceeds must accompany the financial report.

K. Extra Games

Any extra games must be managed and conducted in a similar manner to the regular games.

L. Compensation

Compensation in accordance with published Board guide lines may be paid to the Cashiers and/or Callers.

M. Delegation of Conduct and Management

The conduct and management of the bingo operation must not be delegated to another organization or to a person who is not a member of the organization without prior permission from the Board.

MANITOBA LOTTERIES AND GAMING LICENSING BOARD (BOARD)
SUGGESTED TERMS AND CONDITIONS FOR THE CONDUCT AND OPERATIONS OF A BINGO OPERATION IN MANITOBA

N. Posting of the Licence

A copy of the licence and any House Rules must be posted in the place where the bingo is being held.

O. Posting of the Rules set out in the Application

Posters entitled "Conduct and Operation of Lotteries in Manitoba" are to be clearly posted within the public view in the premises designated in the application during the operation of the bingo.

P. Revocation of Licence

Failure to comply with any term or condition will invalidate the bingo operation. It is an offence under the Criminal Code of Canada to conduct a lottery event without a licence.

The licence may be revoked if, in the opinion of the Board or its authorized representative, the bingo operation is being managed and/or conducted in a manner which will or is likely to reflect unfavourably upon the integrity of gaming in Manitoba.